



Ministry
of Defence

MINISTRY OF DEFENCE ACCOUNTING OFFICER SYSTEM STATEMENT



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1. Introduction

1.1 'Defence' covers all those matters that are the responsibility of the Secretary of State for Defence. In practice this means the business of the Secretary of State and his fellow Ministers, of the Ministry of Defence (MOD) as the Department of State that supports them, and of the Armed Forces as constituted by the Defence (Transfer of Functions) Act 1964.

1.2 MOD's objectives and a summary of our spending are articulated in the 'Single Departmental Plan' which can be accessed at <https://www.gov.uk/government/publications/ministry-of-defence-single-Departmental-plan>

2. Principal Accounting Officer's Statement

2.1 As the MOD Permanent Secretary I am the government's principal civilian adviser on Defence. I have primary responsibility for policy, finance and business planning, and I am the MOD Principal Accounting Officer.

2.2 My responsibilities as Principal Accounting Officer include:

- Ensuring that resources authorised by Parliament are used for the purposes intended by Parliament;
- Providing assurance to Parliament and the public through the Committee of Public Accounts that the Department exercises the highest standards of probity in the management of public funds;
- Having personal accountability to Parliament for the economic, efficient and effective use of Defence resources;
- Accounting accurately and transparently for the Department's financial position and transactions;
- Delegating financial and other authority and accountability to senior colleagues.

2.3 This System Statement sets out all of the accountability relationships and processes within the MOD.

2.4 The Secretary of State for Defence and her fellow Ministers have a duty to Parliament to account, and be held to account, for the policies, decisions and actions of this Department and its agencies. They look to me as the Department's Principal Accounting Officer to delegate within the Department to deliver their decisions and to support them in making policy decisions and handling public funds.

2.5 I delegate responsibility to control the Department's business and meet the standards required by the relevant regulatory authorities within the scheme of delegation. This gives me insight into the business of the Department and its use of resources, and allows the Secretary of State - through the Defence Board - to make informed decisions about progress against Departmental objectives, and if necessary to steer performance back on track.

2.6 Below the Defence Board sits the Executive Committee (ExCo) which is chaired by me. ExCo membership comprises the Chief of the Defence Staff (CDS), the Vice Chief of the Defence Staff (VCDS), and Head Office Directors General and Deputy Chiefs of Defence. It considers the major managerial and strategic policy issues impacting MOD, but at a more delivery-focused level than the Defence Board.

2.7 As Principal Accounting Officer I am personally responsible for safeguarding the public funds for which I have been given charge under the MOD and Armed Forces Pension and Compensation Schemes Estimates. Where I have appointed Accounting Officers, their letters of appointment reflect the principles outlined in Managing Public Money which can be accessed at <https://www.gov.uk/government/publications/managing-public-money>, and their responsibilities are also set out in this System Statement.

2.8 The Statement covers my core Department, its Arm's Length Bodies (i.e. Executive Agencies and Non-Departmental Public Bodies) and other arm's length relationships. It describes accountability for all expenditure of public money through my Department's Estimate, all public money raised as income, and the management of shareholdings, financial investments and other publicly owned assets for which I am responsible.

2.9 Estimates are the means of obtaining the legal authority from Parliament to consume resources and spend the cash needed by the Government to finance a Department's agreed spending programme. Full details of the MOD's Main and Supplementary Estimates can be found at <https://www.gov.uk/government/collections/hmt-main-estimates>.

2.10 This System Statement sets out my personal view of how I ensure that I am fulfilling my responsibilities as an Accounting Officer, in accordance with the Treasury's guidance set out in Managing Public Money, and will continue to apply until a revised statement is published. The diagram at the appendix to this document provides an overview of MOD's funding arrangements, with more detail provided in the narrative below.

3. Modernising Defence Programme (MDP)

3.1 Consistent with the conclusions of the MDP, I am developing a revised Defence Operating Model which will be published in autumn 2019 and be centred on a more strategic and authoritative Head Office. This includes:

- The roll-out of the Government's approach to Functional Leadership to cohere cross-cutting functions, e.g. finance and commercial;
- Adopting best practice in governance of Arm's Length Bodies across Defence;
- A new approach to transformational change and efficiency led by the Chief Operating Officer;
- Implementing findings of recent reviews of the Acquisition System, and of the role of Joint Forces Command.

4. Distribution of Funding through the MOD

4.1 The MOD operating model delegates authority to those best able to deliver outputs for each business area. The core financial structure of the Department comprises seven Top-Level Budget (TLB) organisations and five Executive Agencies.

4.2 The TLBs are:

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

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

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

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

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

5. MOD's Delivery Bodies

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

TLBs

5.2 The head of each TLB – the TLB Holder - is personally accountable for the performance of their organisation. They have to deliver agreed outcomes as effectively, efficiently, safely, sustainably and economically as possible. They also have to operate effective controls to protect regularity and propriety; and stay within financial limits (known as "control totals").

5.3 Each TLB Holder chairs a TLB Board, with the exception of Defence Infrastructure Organisation whose Board is chaired by a Non-Executive Director, and Defence Nuclear Organisation (see paragraph 5.4 below). TLB Board members include at least the Senior Finance Officer and (with the exception of Head Office and Corporate Services) up to five Non-Executive Directors, generally recruited from the private sector. Non-executives are vital to provide challenge to the TLBs, as well as chairing the relevant TLB audit and risk assurance committee. To assist in assessing the adequacy of control arrangements across the Department, each TLB Holder submits an Annual Assurance Report, reviewed by their Board and Audit Committee.

5.4 The Defence Nuclear Organisation (DNO) has separate arrangements, with a Senior Management Board that fulfils the same function as a TLB Board. Chaired by the Director General Nuclear, with the Senior Financial Officer and nuclear capability directors, and representation from across the Defence Nuclear Organisation. DNO provides the Departmental sponsorship function for the Submarine Delivery Agency (SDA), which is an executive agency of the MOD. The SDA has a Board, and a non-executive Audit and Risk Committee. DNO also has oversight of the Atomic Weapons Establishment (AWE), a Government Owned Commercially Operated (GOCO) body responsible for warhead production and support. Similar governance arrangements to the SDA apply to AWE, whilst reflecting the differences required for a limited company as opposed to an executive agency.

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

5.6 Performance and Risk Review meetings are held quarterly to review the performance of the Commands and other key delivery bodies through a formal challenge and support session between the Head Office and the relevant Chief or Chief Executive. In the last year, myself and Chief of the Defence Staff have chaired quarterly meetings with the Chiefs of the Navy, Army, Royal Air Force and the Joint Forces Command as well as the Chief Executive of the Defence Infrastructure

Organisation. They have discussed key performance issues and standing items such as safety, security, finance, people, current operations and infrastructure at each meeting. Decisions and actions are recorded and followed up to ensure that performance issues are addressed. The Defence Nuclear Organisation Performance and Risk Reviews are conducted as part of the Defence Nuclear Executive Board agenda.

5.7 I delegate financial authority to the TLB Holders. Each TLB has a Finance Director who acts as the Senior Finance Officer (SFO) and is the principal adviser on financial matters to the TLB Holder. The letters of delegation state that the SFOs have hard reporting lines to both the TLB Holder and to DG Finance for the integrity of the financial system and processes relating to resource consumption within the TLB. The letter also includes delegated approvals limits in respect of equipment, infrastructure and operating cost expenditure.

5.8 On 4 December 2017 I appointed a Chief Operating Officer (COO). The COO works across Defence to enable the development of the necessary governance and support required for MOD to operate more effectively, and to ensure that we can resource the capacity and capability needed to face the challenges of the future.

5.9 The COO is a member of each of the Commands Boards supporting transparency between the Commands and the Head Office and improving understanding of key issues, from both a Head Office and Command perspective, which can then inform planning and decision making. The COO is leading work to review the governance frameworks in place, in particular the relationship between Head Office, TLBs and other key delivery bodies to ensure that these organisations are suitably supported to be effective, efficient, well-run and accountable.

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

5.11 At the end of 2016 the Defence Board agreed changes to the way in which Defence manages its infrastructure with the delegation of infrastructure funding to TLBs from April 2018. In July 2017 MOD and Capita agreed an amended Strategic Business Partner (SBP) contract which would end by 30 June 2019, involving the further transformation of the Defence Infrastructure Organisation (DIO) to a customer focused, expert adviser and procurement organisation. The SBP focused on the delivery of specific work packages which support DIO in delivering its outputs more effectively and efficiently. A transition plan has been put in place to implement these changes, and to phase out the senior SBP named contractors and replace them with civil servants, which has successfully been completed.

5.12 In developing a more strategic and authoritative Head Office I am restructuring the Head Office and Corporate Services (HOCS) TLB. This is to align responsibility and authority with the Directors General and Chief Executives of

delivery bodies to empower them by giving them the tools and authority to deliver their outputs. They will receive a delegation directly from me which is a departure from our more traditional delegations through a TLB holder, and as a consequence they will each have to operate effective controls to protect regularity and propriety and stay within their financial limits. Each DG and CE will be responsible for producing a business plan setting out what they intend to deliver in the short and medium term within the agreed resources. ExCo will act as the executive committee for the Head Office, and the new sponsorship model being developed by the Directorate of Sponsorship and Organisational Policy will provide oversight of the delivery bodies. With the introduction of Functional Leadership each business area will be supported by a specialist business partner covering their financial, commercial and Human Resources responsibilities. Although HOCS will remain a TLB during financial year 2019/20, this will also be a 'shadow year' to provide the opportunity for the new arrangements to bed in with the emphasis shifting from a TLB structure towards greater accountability by the DGs and CEs with effect from 2020-21.

Executive Agencies (EA)

5.13 With the exception of UKHO (see Section 7 below), the EAs each have a Chief Executive who is appointed as an Accounting Officer by me. They all produce their own accounts which are audited by the National Audit Office (NAO). Furthermore, the EAs are subject to a Framework Agreement with their Owner who is the Secretary of State for Defence. Governance is provided through the EA Boards, each of which includes a number of independent Non-Executive Directors.

5.14 Dstl was previously a Trading Fund but has been operating as an on-vote EA since April 2017. It owns a subsidiary company 'Ploughshare Ltd' about which further detail can be found in Section 10 of this Statement.

5.15 The SDA is a new EA that was formally launched on 1 April 2018. It focuses solely on the procurement, in-service support and disposal of submarines. It operates alongside Defence Equipment and Support to deliver capabilities to the Royal Navy.

6. Non-Departmental Public Bodies (NDPBs)

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

Non-Departmental Public Bodies (NDPBs) with Executive Functions

6.2 Like all central government Departments, MOD decides how much of its budget provision it should cascade to its various public bodies in each year of a multi-year agreement.

6.3 Longer term assistance to a variety of external organisations in support of defence objectives is provided through a Grant-in-Aid (GIA), and this is the case with MOD's NDPBs with Executive Functions. GIAs are generally regular or recurring payments, and the recipient has a certain level of autonomy concerning the

utilisation of the funds. The recipient is often, though not always, an NDPB with Executive Functions.

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

- National Museum of the Royal Navy (NMRN) <https://www.nmrn.org.uk/>
- National Army Museum (NAM) <https://www.nam.ac.uk/>
- Royal Air Force Museum (RAFM) <http://www.rafmuseum.org.uk/> and https://www.rafmuseum.org.uk/documents/freedom_of_information/What_we_spend_and%20how/Financial-Framework-Document.pdf
- Armed Forces Covenant Fund Trust (AFCT) <https://www.gov.uk/government/collections/covenant-fund>
- Single Source Regulations Office (SSRO) <https://www.gov.uk/government/organisations/single-source-regulations-office> and <https://www.gov.uk/government/publications/ssro-corporate-governance-framework>

6.5 While NDPBs enjoy a certain level of autonomy over their own affairs, a Framework Agreement is in place to agree the conditions of expenditure of the GIA and to articulate how this is monitored and against which performance indicators by the sponsoring TLB within MOD. They are signed by the Chair, Chief Executive or equivalent of the external body, and the Budget Holder and Finance Directors of the TLB providing the funds.

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

6.7 The AFCT, which is a new NDPB set up on 1 April 2019, and the three museums are registered charities and as such also have a statutory obligation to meet the requirements of the various Charities Acts. They are managed by Boards of Trustees who provide oversight and governance on decision making.

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

NDPBs with Advisory Functions

6.9 NDPBs with Advisory Functions provide MOD with a wide range of useful advice and support. They do not manage MOD funds and therefore have no Accounting Officer of their own. MOD expenditure on its NDPBs with Advisory Functions is not made through GIAs; instead it is restricted to daily rate payments for their members (i.e. a fixed fee negotiated with the individual within certain limits and dependent on their qualifications, skill set, etc.) and/or travel expenses when the various bodies convene to conduct their business.

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

- Advisory Committee on Conscientious Objectors
<https://www.gov.uk/government/organisations/advisory-committee-on-conscientious-objectors/about>
- Armed Forces Pay Review Body
<https://www.gov.uk/government/organisations/armed-forces-pay-review-body>
- Veterans Advisory and Pensions Committees
<https://www.gov.uk/government/organisations/veterans-advisory-and-pensions-committees-x13>
- Defence Nuclear Safety Committee
<https://www.gov.uk/government/organisations/defence-nuclear-safety-committee>
- Nuclear Research Advisory Council
<https://www.gov.uk/government/organisations/nuclear-research-advisory-council>
- Independent Medical Expert Group
<https://www.gov.uk/government/organisations/independent-medical-expert-group>
- Scientific Advisory Committee on the Medical Implications of Less Lethal Weapons
<https://www.gov.uk/government/organisations/science-advisory-committee-on-the-medical-implications-of-less-lethal-weapons>

7. MOD funding to other bodies

Trading Fund

7.1 United Kingdom Hydrographic Office (UKHO) is an Executive Agency with Trading Fund status. Its Chief Executive (CE) is appointed as an Accounting Officer by the Treasury's Permanent Secretary, while I delegate to the CE, within certain constraints, the necessary authority for effective management of financial, contractual, pay and personnel aspects of UKHO's operation.

7.2 The UKHO is owned by the Secretary of State for Defence. It is subject to a Framework Agreement which can be found at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/392992/20150106_UKHO_Framework_Document.pdf. This sets out the UKHO's responsibilities and governance arrangements. It has a Board which is chaired by an independent Non-Executive Director and also has three independent and two formal (i.e. permanent MOD personnel) Non-Executive Directors amongst its members.

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

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

Statutory Public Corporation

7.5 The Oil and Pipelines Agency (OPA) provides an Oil Fuel Depot and Petroleum Storage Depot capability to MOD. The Department funds the infrastructure and maintains it, and additionally pays the OPA for providing a fuel storage service.

7.6 The OPA is governed by the Oil and Pipelines Act 1985. It has an Accounting Officer appointed by me, and its activities are overseen by a board which is responsible for taking forward the OPA's strategic aims and objectives. It produces its own accounts which are audited by the NAO; they are not consolidated into the MOD's accounts.

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

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

Private Company by Guarantee

7.8 The Navy, Army and Air Force Institutes (NAAFI) provides catering, retail and leisure facilities for the armed forces in numerous overseas locations. It is regarded as a related party outside the Departmental boundary, but the NAAFI Council nevertheless includes serving senior officers from the three services; its board of directors includes a number of Non-Executive Directors. NAAFI's accounts are subject to external audit.

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

Other

7.10 Other recipients of MOD funding which do not fall neatly into a specific category are listed below, and information about their roles can be found at the links provided:

- Royal Hospital Chelsea (RHC) <http://www.chelsea-pensioners.co.uk/> was founded by Royal Charter; its Chief Executive is appointed as an Accounting Officer by me. Governance is provided by a Board of Commissioners, whose meetings are attended by the Army Senior Finance Officer. A Framework Agreement with MOD governs the expenditure of MOD funding, and RHC produces its own accounts which are audited by the NAO.
- Commonwealth War Graves Commission (CWGC) <http://www.cwgc.org/> was founded by Royal Charter. The Secretary of State for Defence is the CWGC co-chair, I am the Accounting Officer and the Assistant Chief of the Defence Staff (Personnel Capability) is a member of the finance committee. CWGC also receives funding from the governments of Canada, Australia, India, New Zealand and South Africa. CWGC's accounts are subject to external audit.
- Duke of York's Royal Military School (DYRMS) <http://www.doyrms.com/> is a company limited by guarantee and an exempt charity. MOD provides a GIA

to fund equipment and services at the school in order to enhance its military ethos. The Board of Governors act as trustees for the DYRMS academy's charitable activities, and the MOD's Director of Young People is a member of the Academy Trust. DYRMS accounts are subject to external audit.

- The Independent Monitoring Board for the Military Corrective Training Centre <https://www.army.mod.uk/who-we-are/corps-regiments-and-units/adjutant-generals-corps/provost/military-provost-staff/mctc/> is appointed by and reports to the Secretary of State for Defence. The MOD funds the payment of Board members' travel and subsistence costs.
- Service Complaints Ombudsman <https://www.servicecomplaintsombudsman.org.uk/> does not manage MOD funds. As with the NDPBs with Advisory Functions, daily rate payments and travel and subsistence allowances are made to individuals for their services.
- Reserve Forces' and Cadets' Associations (RFCA) <https://www.gov.uk/government/organisations/reserve-forces-and-cadets-associations/about> are brigaded under the Council of Reserve Forces' and Cadets' Associations (CRFCA). Army TLB grants to the thirteen individual RFCAs are governed by Service Level Agreements set by Chief of Defence People and Chief Executive CRFCA, from which the latter provides each RFCA with a Business Plan which is reviewed quarterly.
- Defence Science Expert Committee <https://www.gov.uk/government/organisations/defence-scientific-advisory-council> does not manage MOD funds. As with the NDPBs with Advisory Functions, daily rate payments and travel and subsistence allowances are made to individuals for their services.
- Air Training Corps (ATC) <https://www.raf.mod.uk/aircadets/> is headed by a full time reservist Air Commodore supported by a number of permanent staff, all directly funded by Air TLB. In addition Air pays for the training of the adult volunteers who help run the ATC squadrons. The ATC also receives money from the Air Training Corps (General Purposes Fund) which is a registered charity and derives its income from ATC fundraising activity, parental contributions and donations from the public, but does not receive any form of grant or other income from MOD.
- Central Advisory Committee on Compensation <https://www.gov.uk/government/organisations/central-advisory-committee-on-compensation> provides advice on policy issues affecting the War Pensions Scheme and the Armed Forces Compensation Scheme including reviews of their control and governance arrangements, and maintains a credible and visible consultative mechanism for these schemes. The committee does not advise on issues of wider concern to veterans or service personnel, such as welfare, for which other forums exist; nor does it routinely become involved in issues of scheme operation and delivery where, again, other mechanisms are in place.

- International Organization for Migration (IOM) <https://www.iom.int/> is the leading international organisation for migration, acting with its partners in the international community to assist in meeting the growing operational challenges of migration management; advance understanding of migration issues; encourage social and economic development through migration; and uphold the human dignity and well-being of migrants. The IOM comprises 169 member states of which the United Kingdom is one. Until FY2017/18 the UK contribution to the IOM was funded through the Foreign and Commonwealth Office. The IOM sends MOD a quarterly and then yearly breakdown of expenditure demonstrating how the GIA has been spent in undertaking specific tasks on the UK's behalf.
- The Service Prosecuting Authority (SPA) <http://spa.independent.gov.uk/> provides for the independent, efficient and consistent consideration of criminal cases and offences contrary to service discipline. It will initiate prosecutions where justified and conduct fair and thorough proceedings in the service courts of first instance and the service appellate courts, whilst liaising effectively with the police and dealing with prosecution witnesses and victims of crime with care and sensitivity. Whilst maintaining independence from the service chain of command, the Service Prosecuting Authority fulfils its functions in support of operational effectiveness of the Armed Forces throughout the world.
- The United Kingdom Reserve Forces Association (UKRFA) <https://www.gov.uk/government/organisations/united-kingdom-reserve-forces-association> promotes the efficiency of the reserve forces by providing opportunities for education, personal development and international experiences. It does this by sharing ideas and good practice through formal channels with reserve forces in the NATO alliance. UKRFA is an unregistered charity, open to all ranks of the reserve forces of the Crown, serving or retired. It is funded jointly by the MOD and by corporate, unit and individual subscriptions.
- The Defence and Security Media Advisory (DSMA) Committee <https://dsma.uk/> oversees a voluntary code which operates between the UK Government Departments which have responsibilities for national security and the media. It uses the DSMA-Notice System as its vehicle. The objective of the DSMA-Notice System is to prevent inadvertent public disclosure of information that would compromise UK military and intelligence operations and methods, or put at risk the safety of those involved in such operations, or lead to attacks that would damage the critical national infrastructure and/or endanger lives.

7.11 The GIA recipients in the list below share very similar governance arrangements and for the purpose of this Statement can be grouped together. They are registered charities whose accounts are produced and audited in accordance with Charities Commission regulations. For each, the GIA is managed within the terms of a framework agreed with MOD. The funding is variously intended to contribute towards staffing, administration and office equipment costs. More detail on the role of each can be found in the links provided:

- Army Sport Control Board Charitable Fund <http://armysportcontrolboard.org/>
- Naval Families Federation <https://nff.org.uk>
- Army Families Federation <http://www.aff.org.uk/>
- The National Memorial Arboretum Co Ltd <http://www.thenma.org.uk/>
- Marine Society and Sea Cadets <http://www.ms-sc.org/>
- Army Cadet Force Association <https://armycadets.com/>
- Army Regimental Museums <http://www.armymuseums.org.uk/>
- Gurkha Welfare Trust <https://www.gwt.org.uk/>
- Council of Voluntary Welfare Work
<https://beta.charitycommission.gov.uk/charity-details/?regid=251809&subid=0>
- Royal Irish (Home Service) Benevolent Fund
<http://www.aftercareservice.org/downloads.htm>
- Council for Cadet Rifle Shooting <http://www.ccrs.org.uk/>
- First Aid Nursing Yeomanry <http://www.fany.org.uk/>
- Sandhurst Trust <https://www.sandhursttrust.org/>

8. General Grants

8.1 General grants are one-off payments which are provided for specific purposes. The MOD runs a number of grant schemes, the recipients of which will vary according to the purpose of the grant.

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

8.3 Grants are awarded only when the recipient organisation accepts the MOD's terms and conditions of payment. Many of the recipients manage the funds through a board of trustees or a covenant fund executive. Charities' accounts are audited by an external Statutory Auditor in accordance with Charity Commission regulations.

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

- Aged Veterans Fund <https://www.gov.uk/government/collections/aged-veterans-fund>
- Armed Forces related LIBOR grants are distributed on behalf of the Treasury LIBOR Grant Scheme <https://www.gov.uk/government/publications/libor-funding-applications>
- Armed Forces Day <https://www.armedforcesday.org.uk/>
- RAF Sports Federation <https://www.rafsportsfederation.uk/>
- Royal Navy Recognised Sea Scouts <http://www.rnseascouts.org.uk/>
- Volunteer Cadet Corps <https://volunteercadetcorps.org/>
- Defence Relationship Management
<https://www.gov.uk/government/groups/defence-relationship-management>

9. **Contracts and outsourced services**

9.1 In common with other government Departments, the MOD enters into contracts with large numbers of third party suppliers of both services and equipment in the normal course of its business. Some of this can involve significant investment of tax payers' money.

9.2 It is normal practice for Accounting Officers to scrutinise significant policy proposals or plans to start or vary major projects, and then assess whether they measure up to the standards set out in Managing Public Money. I produce an 'Accounting Officer Assessment' for the Public Accounts Committee which provides my assurance on regularity, propriety, value for money and deliverability. The Departmental support I draw on to do this is described in the following paragraphs.

9.3 The Investment Approvals Committee (IAC) is the MOD's senior organisation responsible for considering major investment proposals on behalf of the Defence Board. All projects considered are categorised according to their value, complexity, risk and contentiousness. On particularly expensive, complex, innovative, risky, novel or contentious projects, the IAC makes recommendations to Ministers and to the Treasury. The IAC decides other cases itself or passes those decisions to a level consistent with the value or nature of the proposal. Investment decisions below certain limits are delegated to the Senior Finance Officer in each TLB, each of whom reports to Director General Finance as well as to their TLB holder.

9.4 Director General Finance chairs the IAC on my behalf, taking decisions or making recommendations in the light of the advice of committee members. The other voting members are Vice Chief of the Defence Staff, Chief Operating Officer, Deputy Chief of the Defence Staff (Military Capability), Chief Information Officer and the Chief Scientific Adviser. With effect from 2019/20 there will also be a Non-Executive Director.

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

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

9.7 The project to modernise MOD's Approach to Investment Decisions (Project MAID) is run by DPAS and aims to better enable effective, holistic and timely investment decisions, underpinned by a proportionate evidence base. Project MAID is working to a number of phased milestones, and reports back to each meeting of the IAC.

Chief Commercial Officer

9.8 MOD's Chief Commercial Officer is responsible for developing procurement strategies; negotiating and managing contracts to meet agreed requirements for equipment, goods and services to support military capability throughout their life at best long-term value for money; developing a single clear framework of policies, standards and approaches to achieve consistency, efficiency and economy across all commercial activity, and throughout the life of the project; and developing and deploying a skilled commercial workforce across Defence.

9.9 The Chief Commercial Officer also has delegated authority to enter into contracts and to pass commercial licences to senior commercial personnel and then to commercial staff across the TLBs. Only commercial staff holding the correct level of delegation are authorised to enter into contracts on behalf of MOD.

9.10 One of the ways that MOD assures value for money in contracting is to invite suppliers to compete for MOD business not only where the law requires it, but also wherever feasible. Where MOD finds itself having to enter into a single source contract, the Single Source Regulations Office ensures that MOD is only required to pay a fair and reasonable price for the services or goods being supplied (see also Section 11 below).

9.11 Value for money is also achieved by using Framework Agreements (i.e. pre-existing agreements between government Departments and one or more suppliers for particular types of goods or services); buying common goods and services through the Crown Commercial Service; and using e-Catalogues.

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

10. Joint Ventures and other relationships with Industry

10.1 Joint Ventures (JVs) are just one form of legal entity in which MOD can potentially invest. They are legal entities created by two or more parties who choose collectively to provide a service and share risk, rewards and opportunity. They can be a useful vehicle in larger projects where a single party may not itself have sufficient technical or financial resources or may otherwise prefer to share the risks and benefits with other parties, and therefore the members of a JV pool their expertise and resources to form a separate legal entity.

10.2 The MOD has invested in the following companies:

- Sealand Support Services Limited (SSSL) is a private limited company in which the MOD has a one third equity share. It was established to deliver a global repair hub providing maintenance, repair, overhaul and upgrade services for F-35 Lightning II avionics and aircraft components. SSSL's board comprises 2 directors from each of the 3 shareholders (i.e. MOD, BAE Systems (Holdings) Ltd and Northrop Grumman UK Ltd), with the appointment of the Chair rotating every 2 years between the shareholders.
- Tetricus is a company limited by guarantee which was set up in 1999 by the Defence Evaluation and Research Agency (DERA), Great Western Commerce and Enterprise, and New Sarum Enterprises. Its purpose is to provide a mechanism for spinning out technology and incubating bioscience start-ups in redundant buildings at the Porton Down site.

In 2001 DERA was split between the privately owned QinetiQ organisation and the MOD's on vote executive agency Defence Science and Technology Laboratory (Dstl) which took over the MOD interest in Tetricus Ltd. Each of the 3 shareholders holds 26% of the share capital as Class A voting shares; the remaining 22% remains unissued as non-voting B shares. Tetricus is not currently provided with funding by Dstl, and Dstl receives a lease income from Tetricus for the accommodation it occupies. Governance and oversight is provided by MOD's involvement on the Tetricus Board via the Dstl Finance Director.

- Ploughshare Innovations Ltd (PIL) is a wholly owned technology transfer company. It was established in 2005 to exploit the Intellectual Property developed by Dstl. Since being set up, it has commercialised more than 125 technologies and spun out 12 companies. It currently manages more than 50 licensees.
- Admiralty Holdings Limited (AHL) is a subsidiary of UKHO and a private limited company owned wholly by the Secretary of State for Defence. It is a dormant company which was set up to enter into commercial arrangements with UKHO. AHL acts on the Secretary of State's behalf through the AHL Board which is comprised of the UKHO Board members including the UKHO Non-Executive Directors. Any liabilities on AHL Board members resulting from AHL's activities are indemnified by the MOD. AHL produces total exemption full accounts.

10.3 International Military Services Ltd (IMS) was incorporated as a private limited company in 1967. It ceased trading on 17 February 2010 but is still awaiting resolution of outstanding contractual matters going back many years that remain subject to ongoing negotiations. It became a Designated Body of the MOD from financial year 2019/20 (see <https://www.legislation.gov.uk/ukxi/2019/476/schedule/made>), at which point I became the Accounting Officer.

10.4 The financial statements to December 2017 are the latest to be filed. They were prepared in accordance with UK Generally Accepted Accounting Practice and

are in accordance with the requirements of the Companies Act 2006; the accounts have been independently audited.

10.5 All IMS costs are met from accumulated company profit and investments; the company does not receive any public funds from the Department.

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

Defence Authorities (DAs)

11.1 Since 2014 a framework has been in place under which I have appointed a number of Defence Authorities (DAs) to ensure the effective delivery of corporate functions that cut across internal Defence boundaries. They have held a formal delegation to identify and manage corporate level risk, ensure coherence, and maximise efficiencies across Defence. The DAs have been responsible for establishing and monitoring internal controls, i.e. rules and standards, which are articulated through a Defence Directive supported by Joint Service Publications. These arrangements have covered the following areas:

- Corporate Design
- People
- Health, Safety and Environmental Protection
- Healthcare and Medical
- Logistics
- Capability Coherence
- Business Resilience
- Cyber and C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance)
- Public and Parliamentary Accountability
- Technical and Quality Assurance
- Acquisition System
- Operations

11.2 As part of the wider review of the Defence Operating Model, MOD is gradually replacing the Defence Authority framework with a Functional Leadership approach aligned with wider government. Functional Leadership is expected to be a key driver of efficiency and improved effectiveness across Defence, and is an important part of the COO-led Transformation approach.

11.3 Implementation of Functional Leadership is underway and will continue into Financial Year 2019/20, with Functions currently at varying stages of maturity. Assurance arrangements are being developed to ensure appropriate senior oversight. The following Functions have been stood up so far:

- Finance
- Security
- Commercial
- Communications
- Analysis

- Digital and Information Technology
- Project Delivery
- Infrastructure

11.4 The list of areas to be covered by Functional Leadership is not yet finalised, but will reflect both Cabinet Office best practice, and the emerging findings of a number of operating model and governance workstreams, including reviews of the Acquisition System and of the role of Joint Forces Command (which leads in a number of functional areas). Many of the current DAs will become Functions (although not necessarily mapping directly across), and the responsibilities of those that do not become Functions will be subsumed into the core roles of the relevant senior staff.

Defence Audit and Risk Assurance Committee (DARAC)

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

Defence Internal Audit (DIA)

11.6 DIA is the MOD's single internal audit organisation and is a key component of MOD's governance framework. DIA works to established internal auditing standards, and the team includes professionally qualified auditors and accountants.

11.7 DIA is independent of all Defence Authorities (i.e. those responsible for setting rules and standards for the delivery of a key function that cuts across Defence) and TLB Holders. It reports functionally to me as the Accounting Officer, and the Group Head of Internal Audit reports to Director General Finance. An Audit Charter, reviewed by the DARAC and endorsed by me, defines the purpose, authority and responsibility of DIA and grants internal auditors full, free and unrestricted access to all functions, premises, assets and personnel records, subject to compliance with MOD's security policies. DIA has no direct authority or responsibility for the activities it reviews.

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

National Audit Office (NAO)

11.9 The NAO scrutinises public spending on behalf of Parliament. They are the MOD's external auditors reporting publicly on the Department's annual report and accounts and undertaking value for money reviews as directed.

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

Risk Management, Internal Control and Governance

11.11 Risk management is the identification, assessment, and prioritisation of risks followed by a co-ordinated and economical application of resources to minimise, monitor, and control the probability and/or impact of an unfortunate event or to maximise the realisation of opportunities.

11.12 The MOD has implemented a risk management framework, which is reviewed during the year. It is aligned with the overarching principles of the Treasury's 'Orange Book' (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220647/orange_book.pdf) but has been tailored to meet the specific needs of the Department. Furthermore, the MOD is actively engaged in the exercise to update the Orange Book.

11.13 The MOD vision for risk management is that all key risks to the achievement of our strategic objectives are identified, assessed and managed to within acceptable levels. To achieve this, an environment is being created where consideration of risk is embedded into MOD's culture, planning, decision making and business as usual activities in a common way.

11.14 The design and implementation of risk management, internal control and corporate governance processes and procedures is a management responsibility under the oversight of the Defence Board.

Fraud Defence

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

11.16 We work hard to instil a strong ethical culture in both our service and civilian personnel, ensuring they recognise that fraud and other unethical behaviour within the Department is not acceptable. Those who would abuse the system are not only defrauding taxpayers but also our service personnel on the front line.

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

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

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

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

11.20 The SSRO has three key roles:

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

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

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

Cyber Risk

11.23 MOD policy requires all Information and Communication Technology (ICT) to go through an assurance process to assess its information and cyber security against Departmental requirements. This process ensures appropriate protection and monitoring measures are in place. Core networks and services are managed through MOD's Chief Information Officer and Information Systems and Services (ISS) organisation, with other systems delegated to TLB level to manage within a governance and architecture framework.

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


11.25 Staff across the MOD and especially DBS are regularly reminded of cyber best practice, including how to deal with phishing emails and other forms of cyber-attack. Outgoing connections are either air-gapped or transit MOD gateways via

permitted target systems. Finally, if a cyber-attack is suspected, MOD system operators are authorised to take all necessary actions to protect the Department's core systems.

12 Conclusion

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

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



Sir Stephen Lovegrove
Accounting Officer

17th July 2019

APPENDIX

DIAGRAMMATIC OVERVIEW OF THE MOD'S FUNDING ARRANGEMENTS

