



Single Source  
Regulations Office

# **Compliance & Review Methodology**

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**DRAFT CLEAN VERSION**

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# Compliance and review methodology

## 1. Introduction

- 1.1 The Single Source Regulations Office or SSRO is an executive non-departmental public body, sponsored by the Ministry of Defence (MOD). We play a key role in the regulation of single source, or non-competitive defence contracts. It is vital that single source contracts efficiently deliver the goods, works and services the UK government needs for defence purposes.
- 1.2 The Defence Reform Act 2014 (the Act) and the Single Source Contract Regulations 2014 (the Regulations) together create a regulatory framework for single source defence contracts. The framework places controls on the prices of qualifying defence contracts (QDCs) and qualifying sub-contracts (QSCs). It requires greater transparency on the part of defence contractors, who must submit reports to the SSRO and the MOD about qualifying contracts.
- 1.3 The SSRO is at the heart of the regulatory framework, supporting its operation. We keep the framework under review, monitor reporting compliance, give guidance and answer questions about its operation. We analyse data and provide reports and recommendations to the Secretary of State.
- 1.4 The SSRO's compliance and review methodology (the methodology) identifies how the SSRO exercises its function, under section 36(2) of the Act, to keep under review the extent to which persons subject to reporting requirements are complying with them. It also identifies how the ongoing review and associated findings link to the SSRO's wider functions, particularly how its duty under section 39(1) of the Act to keep under review the provision of the regulatory framework established by the Act and the Regulations may be informed by information obtained from compliance monitoring.
- 1.5 A key feature of the regulatory framework is that contractors and suppliers are required to provide the SSRO and the MOD with information about their contracts, business unit costs and related activities. The statutory reports are a fundamental component of the regime, providing details of prices that can be used to support the MOD's procurement decisions and contract management to achieve value for money and fair and reasonable prices. This transparency supports the MOD by providing statutory sets of standardised data with a duty on contractors to notify it of events and circumstances that may materially affect the contract and other relevant information, helping facilitate the negotiation and management of single source defence contracts. The methodology has been prepared having regard to the SSRO's [Digital Strategy](#). This aims to ensure that the SSRO's Defence Contract Analysis and Reporting System ('DefCARS' or 'the system') supports compliance with reporting requirements, facilitating data upload and the submission of good quality data and that reported data is fully utilised in support of the regulatory framework. Where data is submitted on time and of a sufficient quality to meet the purposes intended by the Act and the Regulations, this will help to ensure that:
  - good value for money is obtained in government expenditure on qualifying defence contracts ('value for money'); and
  - persons who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts ('fair pricing').
- 1.6 The SSRO's compliance review function does not involve providing assurance that individual contracts have been priced in accordance with statutory requirements, nor is it an audit of individual submissions, and these are not features of the methodology. The SSRO may be asked by the MOD or contractors to give opinions or make determinations about matters

related to the pricing of individual contracts, but these are separate functions that depend on a referral being made. The SSRO has published **Guidance** which identifies how it deals with referrals.

## 2. The SSRO's general approach

2.1 Keeping under review the extent to which persons subject to reporting requirements are complying with them involves:

- identifying whether reporting requirements are being met;
- understanding any issues with meeting the reporting requirements;
- linking the review and its findings to appropriate actions; and
- reporting a summary of the overall review findings periodically.

2.2 It is helpful to have some broad measures of whether reporting requirements are being met that can be monitored over time. There are two key performance indicators that the SSRO will apply when measuring compliance against statutory reporting requirements:

- 1) percentage of reports that are submitted on time (target >75%); and,
- 2) percentage of reports that remain with reporting issues outstanding one month following the end of the twelve-month reporting period (target <5%).

2.3 A reporting obligation will be identified as not being met for the purpose of indicator 2 if the SSRO or the MOD has raised an issue on a contract or supplier report submission and the contractor has failed to respond to the issue raised. In its analysis, the SSRO will make clear whether it is including issues that were eventually closed after no response from the contractor or MOD, or any other adjustments made compared to live system data.

2.4 We intend to allow for:

- our timeliness indicator to be based on supplier report submissions and contract level submissions but to also include component completion report submissions;
- our quality KPI calculations will be based on contract level data in contract reports and supplier report submissions, including the new component completion report submissions but excluding any other component level information included in contract reports. As familiarity grows with the updated reporting requirements, the KPI calculation may be adjusted to take into account component level information in the future; and
- in any one year, where the SSRO undertakes additional Targeted or Thematic reviews, these would not count towards the KPI unless any specific issue in relation to a report submission is raised within DefCARS.

2.5 The SSRO has historically assessed the quality of submissions using performance indicators that are based on a 'pass or fail' assessment of whether the submission was correct in its original submission. In keeping under review the extent to which persons subject to reporting requirements are complying with them, the SSRO will also continue to consider wider metrics of data quality. This includes an analysis of 'correct first time' submissions, the level of manual review by the MOD or SSRO, and analysis of consistency and completeness of the content of reports.

- 2.6 This methodology aims to contribute to achieving good quality data from contractors. As set out in our [Digital Strategy](#), data that is used as a 'strategic asset' can support speed and simplicity in procurement and provide trusted insights.. Our assessment, under this methodology, of the quality of data submitted by contractors will focus on its relevance and reliability.
- 2.7 The SSRO identifies whether reporting requirements are being met primarily by reviewing the report submissions made by contractors in DefCARS. Section 3 of the methodology deals with how the SSRO will go about examining whether the reports are submitted on time and whether they contain the required information.
- 2.8 The SSRO will work in partnership with stakeholders to identify whether reporting requirements are being met and to understand any issues with meeting those requirements. This will provide a more complete picture than could be obtained from reviewing the report submissions alone. Sections 3 to 5 of the methodology identify how we will interact with contractors and the MOD to inform our compliance reviews. Our aim is to develop a shared understanding with stakeholders about issues raised and how these should be addressed.
- 2.9 Where issues are identified from a compliance review, appropriate action should be taken to address them. Action may include:
- correction of report submissions by contractors;
  - issuing of compliance or penalty notices by the MOD, including any subsequent enforcement action; or
  - development of reporting guidance and DefCARS by the SSRO, or recommendations to the Secretary of State for legislative change.
- 2.10 Section 6 of the methodology specifies the circumstances in which the SSRO will refer issues to the MOD in relation to individual reports so that it is aware and can take appropriate action. The links between compliance reviews and the SSRO's wider functions are set out in section 7.
- 2.11 The SSRO will report the findings of its compliance reviews, as set out in section 8. This transparency provides an evidence base that informs discharge of the SSRO's functions and the operation of the regulatory framework.

### **3. Review of report submissions**

- 3.1 The SSRO will examine report submissions made by contractors on DefCARS to identify whether reporting requirements are being met. This review will consider the timeliness of each submission and, where reviewed, whether it contains the information prescribed in the Regulations. We will also consider whether a report is consistent with statutory guidance issued by the SSRO.
- 3.2 The SSRO will rely primarily on the results of the automatic checking within DefCARS when carrying out its reviews of contract reports after submission. The system has been developed to carry out a range of automatic validation checks at the point of report submission, providing information on whether reporting requirements are being met. Automatic validation checking has the additional benefit of assisting users to make good quality submissions, because validation warnings are flagged prior to final submission and there is an opportunity for the contractor to address any issues raised. The SSRO will keep the set of validation warnings under review to ensure they target reporting requirements in a proportionate way. Consideration will be given to the extent to which issues continue to be raised on report

submissions that are not linked to validation warnings. The SSRO publishes the list of **validation warnings** to inform stakeholders and proposes to continue this practice.

- 3.3 The SSRO's manual review of supplier reports may additionally consider:
- inconsistencies between the submission and the supporting information; and
  - potential issues that exist despite having passed the validation check and will involve consideration of whether changes need to be made to its current set of automatic validation checks.
- 3.4 The SSRO aims to complete manual reviews of contract reports when 30 working days have elapsed from submission of the report. The SSRO does not currently apply review timescales to correction, component or supplier reports.. Only contract reports are reviewed on a routine basis.
- 3.5 The SSRO's manual review activity is resource dependent. In general, the SSRO will prioritise initial reports, new contractors, following up on prior issues, targeted and thematic reviews as set out in Section 4, or selecting reports on a sample basis.
- 3.6 The SSRO may raise an issue with a contractor to inform its understanding of the extent to which reporting requirements are being met. The SSRO will generally raise an issue with a contractor if it appears that a report appears to be incomplete, inconsistent, erroneous or lacking in detail, having regard to the reporting requirements.
- 3.7 This provides the contractor with an opportunity to clarify whether a reporting requirement has been met and whether there is any inherent difficulty with DefCARS, reporting guidance or the Regulations. Where there is an issue that the SSRO needs to address, it will consider the issue and prioritise action in accordance with its prioritisation principles, as set out in section 7.
- 3.8 In some instances, the SSRO's review of a submitted report will raise an issue as to whether the pricing requirements of the regulatory framework have been met. For example, the reported calculation of the contract profit rate may appear not to follow the four steps (previously six) required by section 17 of the Act and regulation 11. In such cases, an issue may be raised by the SSRO to inform its understanding of how the provision of the Act and the Regulations is being applied, in line with its duty under section 39(1) of the Act to keep under review the provision of Part 2 of the Act and the Regulations.
- 3.9 When raising an issue, the SSRO will categorise the issue into 'reporting' or 'pricing' matters. An issue raised by the SSRO in relation to its section 36(2) function will generally be categorised as a 'reporting' issue, and as a 'pricing' issue if it is in relation to its section 39(1) function.
- 3.10 The SSRO will raise issues using the compliance functionality provided in DefCARS. This allows issues to be efficiently raised and responded to within the report submission in DefCARS. The functionality was introduced in 2018 and will be kept under review in line with the SSRO's [Digital Strategy](#).
- 3.11 Section 2 sets out key performance indicators and that, for the purposes of applying the indicators, the SSRO will rely on the contractor's response rather than forming its own conclusion about compliance. Any issues categorised as pricing issues will not impact these indicators, nor will the SSRO form any concluded views about those matters.
- 3.12 The SSRO will develop and provide regular management information to contractors who make the greatest number of contract or supplier report submissions to allow them to

understand the range and quantum of issues identified within submissions. Similar information will be available for other contractors upon request. We will report these indicators as a twelve-month average as a proportion of report submissions in any compliance report.

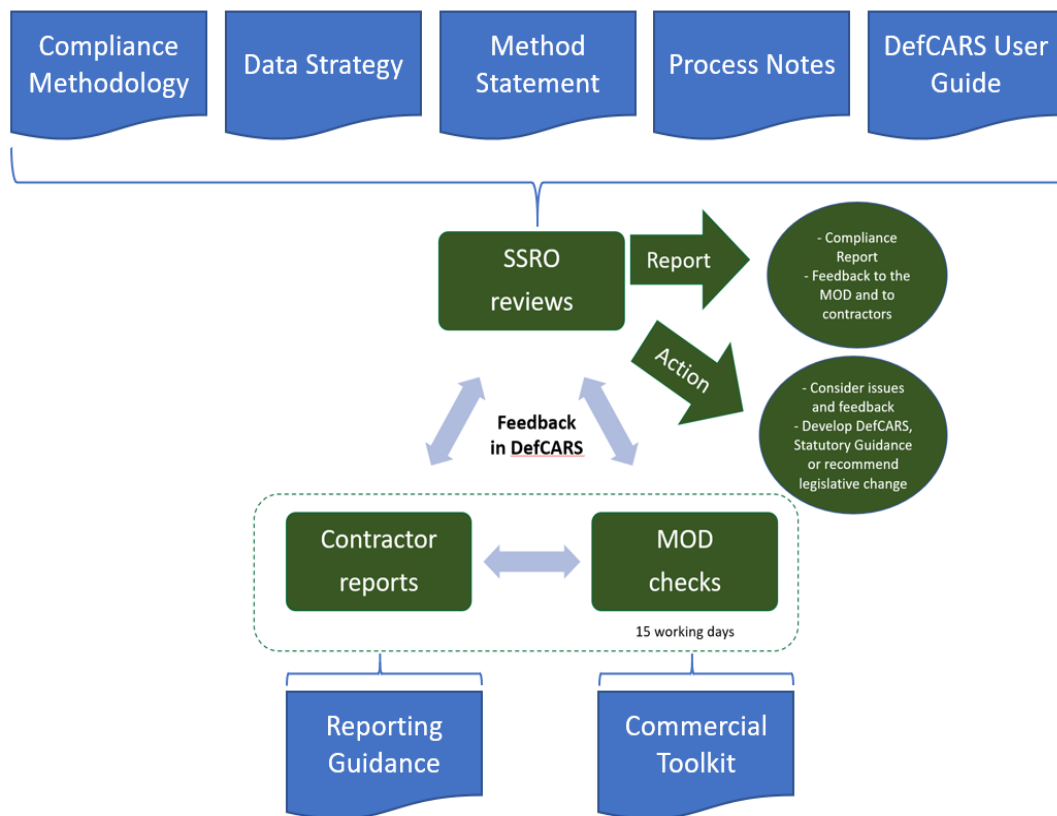
#### **4. Additional compliance monitoring activities**

- 4.1 The SSRO will seek to carry out detailed targeted reviews of selected report submissions each year, in addition to the routine reviews under section 3. It will also seek to conduct thematic compliance reviews to understand how a specific aspect or aspects of the reporting requirements is being dealt with across all reports or a sample of reports. Before undertaking any such work, the SSRO would consider the evidence available from the reviews of individual reports.
- 4.2 The aim of such additional reviews is to enhance the SSRO's understanding of the extent to which reporting requirements are being met. A targeted or thematic review may provide insight into the effectiveness of automatic and routine compliance reviews, and how the provisions of the regulatory framework are being applied in practice. The SSRO may proactively target areas where issues have historically been identified, or which have not been the focus of previous reviews. When undertaking a targeted or thematic review, the review period may not necessarily align with any particular financial year. The period covered by the review may more usefully span, for example, from the point a reporting requirement was introduced as a specific DefCARS update, rather than from the point the requirement was first introduced into the legislation or from the beginning of any one financial year.
- 4.3 These additional compliance activities can only be successfully undertaken with stakeholder support. The SSRO will seek to carry out focused engagement with stakeholders, as necessary, to complete a review. This may include discussing the processes that a contractor has in place to meet reporting requirements, or the processes that the MOD has in place for undertaking its own reviews of submissions. The SSRO will make contact with relevant stakeholders at the earliest opportunity to enable reasonable timescales for review and feedback. The SSRO will aim to provide constructive feedback on its reviews and report its findings as appropriate.

#### **5. MOD reviews of report submissions**

- 5.1 The SSRO has developed DefCARS to facilitate review of reports by the MOD. Officers with access to the system can review reports within their areas of authorisation and can raise issues with contractors about the content of the reports. These issues can be raised and responded to within DefCARS in relation to a report submission. If issues are identified and addressed, then this will improve the quality of data in the system. The intention is to maintain this functionality, subject to appropriate review of the functionality in line with the SSRO's [Digital Strategy](#).
- 5.2 The SSRO will rely on the findings from the MOD's reviews of reports to enhance its understanding of the extent to which reporting requirements are being complied with and how the regulatory framework is operating in practice. The MOD may identify issues and provide information that would not otherwise have been available to the SSRO, for example by using the reports to manage contracts. The MOD can check not only whether reports are complete, but whether they are accurate and consistent with the qualifying contract. The information gathered from analysing issues raised by the MOD will inform the SSRO's prioritisation of further compliance activities and its wider work.
- 5.3 The SSRO will seek to avoid duplication between the MOD's reviews and its own compliance reviews, with the aim of avoiding any unnecessary burden on industry.

Figure 1: Outline of the review process



## 6. Raising matters with the MOD

6.1 The SSRO will work with contractors to encourage timely and good quality submissions. If an issue is not satisfactorily addressed through engagement with a contractor, the SSRO will consider whether to raise it with the MOD. Bringing issues to the attention of the MOD allows the MOD to:

- provide feedback that informs the SSRO's understanding;
- resolve the issue in cooperation with the contractor; or
- issue compliance or penalty notices, including any subsequent enforcement action.

6.2 Feedback is an important part of compliance reviews and the SSRO will work with the MOD to obtain its input on any issues raised. In each instance, the SSRO will be interested in the MOD's views on whether there is an issue, the underlying causes, its relative importance, and how the issue can, or should, be addressed. The feedback should assist the SSRO to understand whether reporting requirements are being met and how the regulatory framework is being applied.

### *Timeliness of submissions*

6.3 DefCARS automatically notifies contractors of forthcoming contract<sup>1</sup> report submission due dates (excluding the initial reports), by reference to a submitted Contract Reporting Plan, and any overdue submissions via an email notification. Where a contractor informs us of the

<sup>1</sup> As required by Part 5 of the Single Source Contract Regulation 2014

reason for a submission delay the SSRO will record this information. Where the SSRO is aware of an outstanding supplier report, the SSRO may attempt to contact the contractor or designated person about the submission directly. The SSRO will monitor the status of outstanding submissions and provide an update to the MOD at regular intervals.

#### *Quality of submissions*

- 6.4 The SSRO will refer unresolved reporting and pricing issues to the MOD, to allow it to consider whether any follow up action is required. In doing so, the SSRO will categorise the original source of its concern for each issue:
- submission appears incomplete or otherwise fails to meet the requirements of the Regulations;
  - information appears internally inconsistent or inconsistent with other supporting information provided by the contractor;
  - information included in the submission or as supporting documents appears insufficient to meet regulatory requirements;
  - information appears out of line with the Act or the Regulations; and
  - information appears out of line with statutory guidance (guidance on Adjustments to the Baseline Profit Rate or Allowable Costs).
- 6.5 The SSRO will further note whether it considers that the issue forwarded to the MOD is of a high, medium or low priority to allow the MOD to consider the matter further. The priority assigned to an issue will be based on its potential impact on operation of the regulatory framework. This involves an assessment of relative priority. The SSRO takes seriously any possible non-compliance with the requirements of the regulatory framework and would likely mark such issues as 'high priority'.
- 6.6 The SSRO will log referred issues based on the MOD's responses and categorisation as one of the following:
- there has been no failure to comply with the Regulations or deviation from the Statutory Guidance;
  - the issue has been resolved in cooperation with the contractor, for example by requiring a correction report, on-demand report, or amendment to the contract;
  - a compliance notice has been or will be issued;
  - a referral has been made to the SSRO for an opinion or a determination;
  - there was a clear reason for deviating from statutory guidance;
  - the issue should be dealt with through changes to guidance, DefCARS or the legislation;
  - other responses, including where the MOD considers no action should be taken for some specified reason;
  - no response.

- 6.7 In each case, the SSRO will rely on explanations from the MOD to enhance its understanding of the issues. The SSRO will use these categories for reporting purposes and the feedback will be used to plan the SSRO's future work in support of the regulatory framework.
- 6.8 Where there has been no response from the MOD within six months to any issue referred to it by the SSRO, we will close the referred issue(s) on the system for that submission and mark it as impacting the overall quality of the report. We will cease to actively follow up on these issues and will not continue to chase a response or raise repeat issues on subsequent reports for the same issue(s) for the same contract. We will maintain management information on the number of SSRO issues that are closed after six months where there has been no response from the MOD.

## **7. Supporting compliance and improving the regime**

- 7.1 The SSRO will coordinate its compliance review processes with its support functions. Early engagement will assist the SSRO to identify difficulties that contractors may have with understanding, or complying with, reporting requirements. Support can be targeted towards identified difficulties, for example through on-boarding sessions, helpdesk assistance and training on reporting and the use of DefCARS.
- 7.2 The SSRO will consider the findings from the compliance review process when prioritising its future work. Compliance reviews may disclose areas of difficulty in complying with the pricing or reporting requirements of the regulatory framework that the SSRO can address through its wider functions, for example:
- revised support arrangements;
  - new or updated guidance;
  - developments in DefCARS; or
  - recommendations for legislative change.
- 7.3 To support this consideration, the SSRO will consider issues from compliance reviews that need to be addressed and will seek to identify repeat or consistent themes. We will engage with stakeholders, for example through the Reporting and IT Sub-Group of the Operational Working Group, to help us identify, prioritise and take forward any required action. The SSRO expresses its prioritisation principles in its corporate plan and will consider these when addressing any issues identified through its compliance work.

## **8. Reporting findings and providing feedback**

- 8.1 The SSRO will provide feedback to contractors with multiple contracts on compliance themes identified from their report submissions, as well as on any issues that remain outstanding. We will provide information about reporting issues at a contractor or designated person level, in addition to the information provided to the contractor's administrator or the person submitting the report, if it is practicable to provide the information and it would assist with compliance. We will consider how feedback can be delivered through the system in future in line with our [Digital Strategy](#).
- 8.2 The SSRO will regularly summarise the findings from its compliance work in a Compliance Bulletin, which will consider the performance indicators on timeliness and quality of report submissions. In any one year, the report may be supplemented with further analysis, including summaries of our targeted and thematic reviews, a factual commentary on the data, emerging themes and areas where changes or improvements are required and recommendations for action, as appropriate.

- 8.3 The SSRO will take care that the Compliance Report does not disclose information contrary to Schedule 5 of the Act. The SSRO will publish its report so that it is clear how it has discharged its functions, and so that the findings provide an evidence base for future work by the SSRO and engagement with stakeholders.
- 8.4 The SSRO recognises that some issues may take time to resolve but are capable of being corrected on DefCARS. Some other issues, however, relate fundamentally to how the provisions of the regime apply in practice and may be difficult to understand or address. In order to ensure that issues identified are not left without consideration, the SSRO will provide regular feedback to the MOD, identifying where matters have had an impact either on data quality or the operation of the regulatory framework. It may, alternatively, be more appropriate to provide direct feedback to the MOD and industry stakeholders. This may be through, for example, a presentation at the Reporting & IT sub-group, provision of findings to interested MOD contacts, or through a separate publication of the review on the SSRO's website.