



**SSRO**

Single Source  
Regulations Office

Single Source Regulations Office  
Annual Report and Accounts 2014/15



# The Single Source Regulations Office

## Annual Report and Accounts 2014/15

Presented to Parliament pursuant to Paragraph 13 (5) of Schedule 4 of the Defence Reform Act 2014.

Ordered by the House of Commons to be printed on 16 July 2015.

## © Single Source Regulations Office (2015)

The text of this document (this excludes, where present, the Royal Arms and all departmental or agency logos) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as Single Source Regulations Office copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Any enquiries regarding this document should be sent to us at:

### **Single Source Regulations Office**

Finlaison House  
15-17 Furnival Street  
London  
EC4A 1AB

Telephone: 0203 771 4767

This publication is available at <https://www.gov.uk/government/publications>.

Print ISBN 9781474121774

Web ISBN 9781474121781

ID 12061508 07/15

Printed on paper containing 75% recycled fibre content minimum.

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office.

---

Contents	5
Forewords	6
<b>Annual report</b>	<b>10</b>
Strategic review	11
Directors' report	23
Statement of responsibilities	31
Governance statement	33
<b>Annual accounts</b>	<b>41</b>
The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament	42
Statement of Comprehensive Net Expenditure	44
Statement of Financial Position	45
Statement of Cash Flows	46
Statement of Changes in Taxpayers' Equity	47
Notes to the Financial Statements	48
Appendix 1: Accounts Direction	56

# Forewords



## Foreword from the Chairman

The Defence Reform Act received Royal Assent on 14 May 2014, bringing into force significant changes to the way the UK government procures defence equipment and services for its armed forces. The Act also established the Single Source Regulations Office, the independent body that oversees 'single-source' procurement - military goods or services that can only be purchased from one supplier due to their specialised or unique characteristics, or for reasons of national security. The SSRO will be the independent statutory regulator of the single source procurement regime in defence. Approximately £8.6 billion was spent by the Ministry of Defence (MOD) on single source contracts in 2013/14.

I was formally appointed Chair of the SSRO in July 2014, soon after the Act received Royal Assent. In my initial meetings with the architects of the reform, we discussed their vision of bringing greater transparency to single source procurement.

The first statutory aim of the SSRO is to ensure that good value for money is obtained in government expenditure on qualifying defence contracts. Having adopted the Review Board for Government Contracts' calculation of the contract profit rate for 2015, we recommended to the Secretary of State that the baseline profit rate for single source defence contracts for 2015 should be 10.60 per cent, a 0.10 per cent reduction on the rate for 2014. I am gratified that the Secretary of State accepted this proposal.

We are also seeking to improve value for money by encouraging suppliers to be transparent in how they deal with the MOD, thereby enabling the MOD to be more effective in the way it negotiates single source contracts. Under the new regime prime contractors will report to the SSRO about their costs – which costs they incur and with whom they are incurred. In January 2015, we published new rules on what costs are 'allowable' under single source contracts. Pricing large, lengthy and complex contracts is a difficult task.

Our job is to help both parties be clear and understand the basis on which they are contracting, and ensure that claimed costs will withstand public scrutiny.

The SSRO will also help the MOD secure better value for money through several of our other functions, including for example by analysing cost information to highlight where a supplier is spending consistently more, or less, on certain costs than its competitors. We will analyse the information we have to form a view of potential savings.

The second statutory aim of the SSRO is to ensure that parties to qualifying defence contracts are paid a fair and reasonable price under those contracts. We recognise the vital importance of defence contractors both to the UK economy and to national security, and it is important that the reforms result in benefits to business. My initial priority as Chair was to engage directly with all contractors, by meeting them, attending and speaking at industry forums, and visiting as many of their production facilities as I could.

The SSRO Board is in full agreement that the SSRO will operate openly and transparently, and engage as widely as possible. We have focused our effort in our first year on communicating - bringing together senior representatives from prime contractors and the MOD to discuss matters of mutual interest; publishing newsletters setting out what we're doing and Board agendas and minutes on our website; and establishing more in depth discussions at working level. We have been clear that we will consult wherever we can; all opinions and determinations will be published; and all reports will be public.

Without exception, all contractors have engaged positively with the SSRO as we have delivered our first statutory functions, even those that may disagree with us on some of the issues. They recognise that the SSRO has a job to do and they are providing honest and helpful feedback, which has been both supportive and challenging but always constructive.

It is impossible for a regulator to meet everyone's expectations. I don't expect everyone to agree with every decision we take but I hope everyone will understand what we have done and why we have done it.

The SSRO has a wide remit - it issues statutory guidance, sets profit rates, monitors contract compliance, analyses and benchmarks costs, gives opinions and determinations if disputes are referred, and reports on performance annually. In undertaking this work, we will strive to be fair, to listen to all parties, and to remain impartial and independent.

In our first year, the SSRO has been greatly served by its non-executive members. I would like to thank Jane Attwood, Marta Phillips and Clive Tucker who, as a Board, have given the organisation clear direction, and made several important decisions that have put us on course to fulfil our statutory aims.

Jeremy Newman  
**Chairman**



## Foreword from the Interim Chief Executive

I started my secondment to the SSRO in July 2014, and in September was made Interim Chief Executive and a member of the Board. With the Chair, my job was to establish the SSRO in the most economic and efficient way possible. A regulator cannot ask for better value for money from the organisations it oversees if it is not efficient itself.

My immediate priority was to establish our governance arrangements. We established the processes required to allow the Board to make effective decisions about how the organisation should develop and function. The Board agreed the most important governance documents required to establish the organisation at its first meeting in October 2014, the structure of the organisation and how it wished to undertake its business. I am pleased to say that we have since received substantial assurance from our internal auditors that the appropriate governance procedures are in place and fit for purpose.

Our next challenge was to set up our office in London, on the 3rd floor of Finlaison House in Furnival Street, and implement the security measures and IT infrastructure necessary to support a staff complement of around 30 during 2015/16. Following a substantial renovation, the office is now a modern workspace for the Board and staff, though one which is modest and reflects our focus on delivering value for money. Our offices opened for business on 8 December 2014.

We established our corporate resources function, to efficiently support the organisation as it grows. To ensure a professional service that is resilient and scalable, we have outsourced a large proportion of our back office functions - including IT infrastructure support and security, HR, Payroll and Finance. It does not represent good value for money to operate these services in-house, so we have outsourced them to efficient providers and recruited a small core team to lead and manage these functions.

Having operated with few staff, many on part-time secondment, we launched a recruitment campaign in early January 2015 to fill the majority of posts.

Recognising the importance of clear leadership the Board agreed to early action on the three Executive Board member roles, appointing to two Director roles during the first quarter of 2015/16 to support my interim Chief Executive appointment. A permanent appointment to the Chief Executive role is anticipated by autumn 2015. We have successfully recruited the majority of the staff team – all high calibre individuals, with the necessary skills and experience across a range of specialisms.

The Single Source Contract Regulations came into force in December 2014, and with the new regime operational we were well aware that a Qualifying Defence Contract (QDC) might be signed at any time. We therefore pursued our statutory functions purposefully, to give the MOD and contractors early clarity. We published guidance on allowable costs; determining penalty amounts; the contract profit rate; adjustments to the baseline profit rate; a suite of reporting templates and user guides; our position statement on the defined pricing structure; and guidance on our procedures for considering referrals. With so few staff, this was a significant achievement.

One of industry's main concerns is that the cost information they provide to us should be collected, processed and stored securely. Following an open procurement exercise, we have appointed an external service provider to work with us to develop a pilot for a secure database to collect, hold and analyse this information. The pilot system will be complete and ready to use by 30 June 2015 and will be capable of accommodating the volume of reports the MOD has indicated we could receive in the first year. We will work closely with both the MOD and early QDC contractors during the pilot phase to ensure the process is efficient, secure and effective.

It has been a challenging first year, but we have made significant progress towards Lord Currie's vision of establishing an independent expert regulator of single source procurement. We are now in an excellent position.

As we move towards a fully resourced team we have much to deliver over the next year, during which the first qualifying defence contracts will be signed. We will meet our aims by:

- collecting and analysing data;
- compiling and publishing relevant guidance;
- developing a defined pricing structure;
- establishing a secure database for the data we will receive;
- potentially hearing the first matters referred to us for an opinion or determination;
- reviewing the method and processes previously used to calculate the baseline profit rate;
- fulfilling our other statutory obligations, including analysis for the Secretary of State; and
- continuing our comprehensive engagement programme with industry and government.

By undertaking this work effectively, we will work towards ensuring that the SSRO is a credible and respected organisation.

Marcine Waterman  
**Interim Chief Executive**

# Annual report

# Strategic review

## Our activities in 2014/15

The SSRO was created by the Defence Reform Act 2014, which received Royal Assent in May 2014, and was commenced in July 2014. The Single Source Procurement Regime came into force in December 2014, following Parliamentary approval of the Regulations relating to the Act.

As a newly established organisation, the SSRO did not have strategic objectives in place for 2014/15. The main focus of its newly established Board was to establish the organisation envisaged by the Defence Reform Act and to undertake the statutory functions required by the Act. The text below therefore sets out the SSRO's work to:

- establish robust governance arrangements for the organisation;
- undertake the statutory functions required by the Defence Reform Act;
- engage with stakeholders in the defence industry and government;
- develop its back-office processes and corporate resources; and
- recruit professional staff and establish an expert regulatory team.

### 1 Robust governance

As a new organisation, the first priority of the SSRO was to establish effective governance arrangements so that the Board could make robust, evidence based decisions, in line with governance best practice. Good corporate governance is fundamental to any effective organisation, and the corporate governance arrangements of the SSRO are critical in helping us to achieve our principal statutory duties. The SSRO will regularly review its governance arrangements to ensure that they remain fit for purpose, and continue to reflect the organisation's duties, functions and values.

The Chair of the SSRO, Jeremy Newman, became Chair Designate in May 2015 and was formally appointed in July 2014.

*“Jeremy Newman has been appointed from within a very high-calibre field and I am confident that he has the skills, experience and character to make the SSRO a success; both the department and industry partners are looking forward to working with him in the future.”*

**Philip Dunne MP, Minister for Defence Equipment, Support and Technology,  
MOD press release, ‘Business leader to get better deals for MOD contracts’,  
25 July 2014**

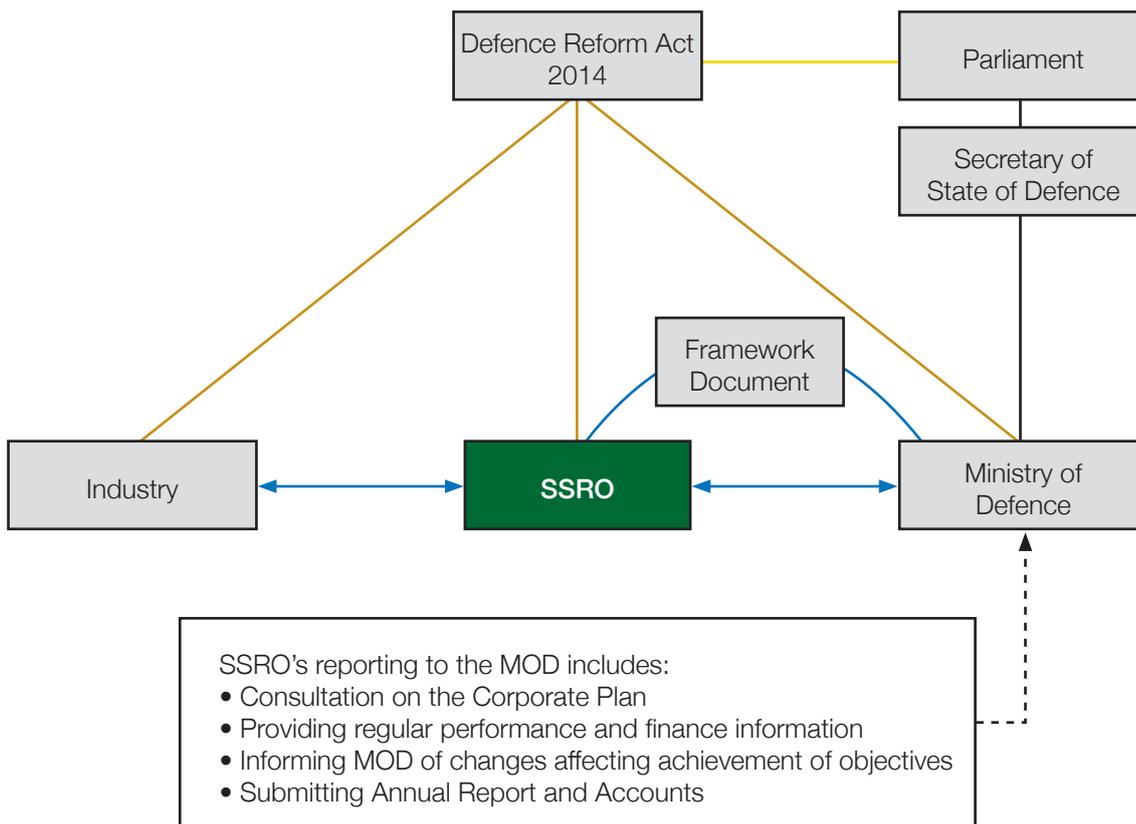
Three further non-executive Board members were appointed by the Secretary of State for Defence in September 2014: Clive Tucker, Jane Attwood and Marta Phillips. A fourth non-executive member was appointed by the Secretary of State for Defence, but resigned before the first Board meeting.

In line with Cabinet Office guidance on non-departmental public bodies, the Board underwent an induction process led by the Chair and Interim Chief Executive. During this process, speakers representing industry and the MOD held discussions with the Board. They were also presented with information on their responsibilities, duties and the code of conduct by SSRO staff. A review of the Board’s effectiveness will be undertaken annually, with the first review due in late 2015.

The SSRO Board’s first meeting was held in October 2014. During this meeting, the Board approved the SSRO’s Framework Document with the MOD. In accordance with HM Treasury and Cabinet Office guidance, arms’ length bodies are required to sign a framework

document with their sponsor Department, setting out the relationship between the relevant organisations; the purpose and responsibilities of the arms’ length body; and details of how the body will operate and be governed. The SSRO’s Framework Document makes clear its independence from government, while ensuring that the organisation abides by HM Treasury rules on the use of public funds. An additional Financial Framework for the SSRO was also considered by the Board, and has been signed by the Interim Chief Executive of the SSRO and the Permanent Under-Secretary of State of the MOD.

At its first meeting, the Board also agreed the structure of its sub-committees. The Defence Reform Act 2014 states at Schedule 4, Section 11(1) that: “The SSRO- may appoint committees, and may determine the procedure of its committees”. The SSRO Board agreed that the following committees should be established: an Audit Committee; a Regulatory Review Committee; and a Referrals Committee, which will be established on a case by case basis and



will have two non-executive members and a single independent member selected from a panel of external experts. Since their establishment, all Board sub-committees have met at least once, and have agreed their terms of reference.

One of the first acts of the Board was to approve the SSRO's Corporate Governance Framework. The Framework is in line with HM Treasury and Cabinet Office guidance on corporate governance for arms' length bodies and sets out the SSRO's responsibilities and the procedures it will use to ensure it is governed to a high standard. It specifies the key responsibilities of the Board of the SSRO; the conduct expected of the SSRO's Board members and staff; the Board's powers of delegation; and the proceedings of the Board. The Framework will be reviewed annually to ensure it matches the SSRO's organisational requirements, any new guidance and reflects best practice.

The Board also approved and published a Code of Conduct for Board members, ensuring that members act in good faith and in the best interests of the SSRO. This included the establishment of a register of interests for Board members on the SSRO website. The SSRO's Gifts and Hospitality Policy ensures that members and staff exercise the utmost care in accepting hospitality or gifts where there could be a real or perceived conflict with their official duties at the SSRO. The rules are based on the requirements of Parliament and HM Treasury. The register of gifts and hospitality, required by the policy, is also published on the SSRO's website.

The SSRO aims to be a transparent organisation. In the interests of transparency, all Board agendas and minutes are published on the SSRO website.

As a newly established organisation with no appointed permanent senior staff or established Executive Committee throughout the reporting period, the Interim Chief Executive sought to put in place robust project management arrangements for the transition from initial set up to full establishment. An SSRO Transition Programme Board was established with the MOD, which acted as an oversight board on issues such as the SSRO's transition plan; the transition risk and issues registers; proposals for data collection, storage and analysis; and access to MOD draft interim guidance on profit adjustments and the defined pricing structure.

Alongside the risk register overseen by the Transition Programme Board, a corporate risk policy has been approved by the SSRO Audit Committee. Risks are further covered in the Governance Statement of this report<sup>1</sup>.

All governance arrangements have been put in place in a short space of time and with limited resources. The SSRO's internal auditors (the Government Internal Audit Agency) have provided substantial assurance to the Interim Chief Executive that the SSRO's governance processes are robust.

<sup>1</sup>The SSRO's Framework Document requires us to disclose any newly identified risk; a record of any ministerial directions given; and a summary of any lapses of data security. No newly identified risks have been identified, beyond those in the Transitional Programme Board risk register. Similarly, no ministerial directions have been given and there have been no lapses in data security.

*"The SSRO has established and implemented governance arrangements appropriate to its business, scale and culture. Its corporate governance structure combines efficient decision making with accountability and transparency"*

**Government Internal Audit Agency report on the SSRO, March 2015**

## 2 Statutory functions

The Defence Reform Act (Act) and Single Source Contract Regulations (Regulations) require the SSRO to perform a range of statutory functions. With limited resources during its formation, the SSRO has fulfilled the following statutory duties during its first year:

- publishing statutory guidance on allowable costs;
- proposing rates relevant to determining the contract profit rate;
- publishing statutory guidance on calculating the adjustments to the baseline profit rate;
- publishing statutory guidance on penalty amounts for use by the MOD in issuing penalty notices;
- publishing internal guidance on its referrals procedure;
- publishing statutory guidance on reporting, including templates that can be used to meet the requirements of the Regulations and guidance as to how these templates should be completed; and
- developed our initial thinking on the defined pricing structure.

### Achievements of the SSRO

<b>23</b>	<b>January</b>	Contract Profit Rate issued
<b>26</b>	<b>January</b>	Allowable Cost Guidance issued
<b>24</b>	<b>March</b>	Referrals guidance issued
<b>26</b>	<b>March</b>	Profit rate adjustments issued
<b>26</b>	<b>March</b>	Defined pricing structure consultation
<b>26</b>	<b>March</b>	Defined pricing structure consultation
<b>27</b>	<b>March</b>	Report templates and user guides

### Allowable Costs

The SSRO's guidance on Allowable Costs sets out the principles which contractors and the MOD must have regard to when determining whether costs are 'allowable' under qualifying defence contracts and qualifying sub-contracts. To support this, the Act states that Allowable Costs must be 'Appropriate, Attributable and Reasonable in the circumstances'.

Typically, costs account for approximately 90 per cent of the contract value and were previously based on the 'Government

Accounting Conventions' included in the 'Government Profit Formula and Associated Arrangements' (commonly referred to as the 'Yellow Book'). This approach had remained largely unchanged since 1968. The SSRO's statutory guidance is therefore a significant step forward, which will be integral to the new single source procurement framework.

The guidance includes a range of examples and checklists to help users assess if costs meet the criteria specified in the Act.

Our draft guidance was issued for public consultation in November 2014. We received a high volume of responses, which provided us with constructive feedback through which we were able to improve the guidance. The final version of the guidance, incorporating the relevant changes, was published on 26 January 2015. Alongside the final version, we published the responses received from stakeholders, and a document setting out how we responded to their comments.

The guidance is available on our website: <https://www.gov.uk/government/consultations/single-source-cost-standards-sscs-statutory-guidance-on-allowable-costs>

We will continually review the guidance throughout the year, and update the document if necessary.

### Rates relevant to the contract profit rate

The Act requires the SSRO to annually review the rates used to determine the contract profit rate and provide the Secretary of State with its assessment of what is appropriate so that the rates for the coming year can be issued by 15 March.

As the SSRO was not in a position to develop a new methodology for determining the rates in its first months of existence, it agreed that the Review Board for Government Contracts should develop the 2015 baseline profit rate and capital servicing adjustments, on the condition that the SSRO received adequate assurance about the robustness of the process and data used to determine them. Following a process of due diligence, the SSRO Board agreed to endorse the Review Board's baseline profit rate and capital servicing adjustment for the year beginning 1 April 2015. SSRO officials shadowed the work of the Review Board and received adequate access to its methodology, models and data. A full description of this process can be found on our website at <https://www.gov.uk/government/publications/ssro-2015-contract-profit-rate>

On 23 January 2015 we recommended the 2015 contract profit rate to the Secretary of State. The recommended baseline profit rate of 10.60 per cent for 2015 represented a 0.10 per cent reduction on the 2014 rate. The Secretary of State for Defence accepted the recommended figures on 11 March 2015.

During the next 12 months, the SSRO will develop a new approach to assessing and determining the baseline profit rate and capital servicing adjustments. The SSRO will review a number of areas including the:

- principle of comparability;
- exclusion of companies under price regulation;
- inclusion of companies which are UK based but whose activities are predominately overseas;
- treatment of R&D tax credits; and
- use of simple rolling averages.

### Guidance on adjustments to the baseline profit rate

The Act provides for the SSRO to issue guidance in relation to the following adjustments to the baseline profit rate:

- cost risk adjustment;
- profit on cost once;
- SSRO funding adjustment;
- incentive adjustment; and
- capital servicing adjustment

In accordance with the Regulations, the SSRO funding adjustment is set at zero until 2017. Three of the remaining four adjustments are based on high level principles, whereas profit on cost once provides a more prescriptive methodology.

Our draft guidance on adjustments was issued for public consultation in February 2014. The final version of the guidance, incorporating the relevant changes, was published on 26 March 2015. Alongside the final version, we

published the responses received from stakeholders, and a document setting out how we responded to their comments. The guidance is available on our website: <https://www.gov.uk/government/consultations/single-source-statutory-guidance-on-adjustments-to-the-baseline-profit-rate>

### Guidance on determining the amount of penalty

The SSRO produced guidance to be used by the Secretary of State when determining the amount of penalty to issue for contraventions of the Regulations for qualifying defence contracts and qualifying sub-contracts.

The Act and Regulations are prescriptive in identifying what constitutes a contravention and the maximum penalty amounts for the contravention. Therefore the SSRO's guidance specifically focuses on the factors to be considered when determining the amount of penalty. The aim of this guidance is to ensure that any penalties issued by the Secretary of State are fair and proportionate, while acting to deter non-compliance with the Act and Regulations.

The SSRO recognises the significant changes resulting from the introduction of the Act, Regulations and Guidance. Therefore, upon referral to the SSRO, penalty amounts may be adjusted to reflect these transitional issues. In such cases the SSRO will consider the following factors in its determination:

- a) efforts made to comply; and
- b) familiarity with the new legislation, Regulations and guidance.

This transitional arrangement will remain in place until 1 April 2016.

Our draft guidance was issued for public consultation in February 2015 and the final version of the guidance was published on 26 March 2015. The guidance is available on our website: <https://www.gov.uk/government/consultations/single-source-statutory-guidance-on-determining-penalty-amount>

### Referrals procedure

Under the Act, the SSRO has a duty to issue opinions or legally binding determinations in response to referrals from the Ministry of Defence or from a contractor.

Examples of determinations that may be sought by making a referral to the SSRO include adjustments to contract profit rate calculations and determinations on the extent to which a cost is an 'allowable cost' under a qualifying defence contract. Under the Defence Reform Act, the SSRO's decisions are final.

We have issued guidance that sets out the role and authority of the SSRO, the requirements for a referral to the SSRO, the criteria that the SSRO will apply to determine whether it is appropriate for the SSRO to accept the referral, and the policies and procedures that the SSRO will follow in discharging its functions under the Act and Single Source Contract Regulations 2014.

The SSRO will have a Referrals Committee, responsible for considering all such matters as and when they arise. The Committee will consist of three persons appointed by the Chair of the SSRO or any other member who has been authorised (generally or specifically) for that purpose. At least one of the members of such a committee must be a person who is not a member or employee of the SSRO. We have begun recruitment of independent Panel Members for the Referrals Committee.

### Reporting templates and user guides

The SSRO has created and published report templates in accordance with the requirements contained within the Act and Regulations. This is the first time reporting requirements have been a statutory obligation for qualifying defence contracts and qualifying sub-contracts. Therefore the SSRO has also produced user guides to assist contractors when completing and submitting the required reports.

Our draft guidance was issued for public consultation in February 2015 and the final version of the guidance was published on 27 March 2015. We have

established an operational working group with the MOD, industry representatives and our outsourced specialist secure data management partner to discuss and put into place the arrangements for the collection of the reporting data. The reports and user guides are available on our website: <https://www.gov.uk/government/consultations/qualifying-defence-contracts-reporting-templates-and-user-guides>



### Defined Pricing Structure

Three of the reports published by the SSRO (the contract notification report, interim contract report and the contract completion report) include a requirement for costs to be analysed by the defined

pricing structure (DPS). The DPS is a list of cost categories describing key components of the deliverables to be provided under a contract. The purpose of the DPS is to allow cost information to be collected, which will enable future analysis, whilst assisting effective contract monitoring without being burdensome.

We issued an approach to developing a full DPS for submarines for consultation in February 2015, based on US Military Standard 881c and using in this case an example of a submarine system. The DPS will be developed over the course of the next two years, in line with the Act and Regulations, and in consultation with industry and the MOD. The DPS principles will be published on the SSRO website by 30 June 2015. This will be accompanied by the first two DPS – for Surface Ships and Submarines. The remaining 14 DPS will be developed and published before the end of 2015.

We will conduct joint meetings with contractors and the MOD to determine the DPS for initial qualifying defence contracts as they arise over the next year, consulting with wider industry when determining DPS for initial qualifying defence contracts to ensure industry-wide suitability as they arise.



## 3 Stakeholder engagement

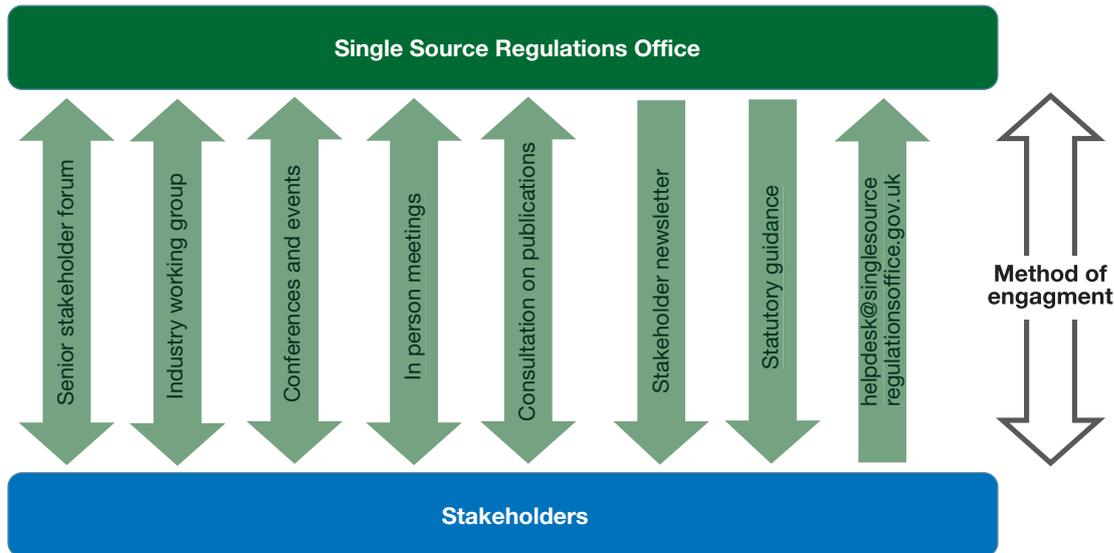
The SSRO is engaging proactively with a diverse network of stakeholders. This is particularly critical for a new and developing organisation with limited resources, making decisions that may not always be welcomed by some of its stakeholders, many of whom are influential and well resourced.

The Chair and Interim Chief Executive of the SSRO have met with senior representatives from all prime defence contractors and have visited several of their UK production facilities, as well as attending industry forums and speaking at industry events. The Chair has also met key ministers and officials at the MOD and senior colleagues across government and other regulators to discuss the work of the SSRO.

The SSRO Board held its first Senior Stakeholder Forum on 5 February 2015, with the aim of bringing together all prime defence contractors and the MOD to discuss issues

of mutual interest. Representatives from 15 defence companies, ADS and the MOD attended. As well as providing a formal opportunity for introductions, networking, and to view the new SSRO office, the Senior Forum provided an opportunity to discuss the SSRO's statutory functions, including work on the Defined Pricing Structure. The SSRO was pleased with the level of engagement and feedback from industry and the MOD and has taken industry concerns on board in order to address them throughout our work. The SSRO intends to host Senior Stakeholder Forum meetings biannually, with the next scheduled for September 2015.

### STAKEHOLDER ENGAGEMENT



In order to address issues that would benefit from more in depth detailed discussions at working level, the SSRO also holds quarterly discussions of mainly operational matters with the prime defence contractors and MOD. The first working group with industry was held on 24 March 2015. The working group was attended by representatives from all prime defence contractors and participants discussed SSRO report templates and user guides; the proposed process and timetable for data collection; and the Defined Pricing Structure. The working group provided an open discussion on next steps for SSRO and presented an opportunity for stakeholders to raise concerns or questions. The SSRO aims to host these working group meetings on a quarterly basis and looks forward to hosting the next SSRO working group with industry. We are also establishing contacts with SME defence suppliers, some of whom may become qualifying defence subcontractors.

We have published two newsletters in 2014/15, which have also been sent out to all our stakeholders and are available to view on our website. The SSRO will publish newsletters at least four times each year. We hope they will serve as a useful insight into the SSRO's internal and external work, and give a flavour of SSRO activity and priorities.



The SSRO has also conducted several consultations, from which we have gathered valuable feedback from our stakeholders. These include consultations on the SSRO's guidance on: Allowable Costs; adjustments to the baseline profit rate; penalty amounts; report templates and user guides; and the Defined Pricing Structure.

We have issued two press notices, highlighting the publication of the guidance on Allowable Costs and our recommended contract profit rate to the Secretary of State, which was later accepted. The Chair was also interviewed by ADS Advance magazine.

The SSRO has set up a process for recording and dealing with enquiries from the public and information requests under the Freedom of Information Act. The SSRO aims to respond to FOI requests within ten working days. To date, the SSRO has received four FOI requests, all of which have been dealt with in the allocated time period.

We have drafted and issued our Corporate Plan for 2015/16 to interested parties for consultation.

#### 4 Corporate resources

Our principal statutory aim is to ensure that good value for money is obtained for the UK taxpayer in Ministry of Defence expenditure on single supplier defence contracts while also ensuring that those suppliers receive a fair and reasonable price. This focus on the importance of taxpayers' money guides how we run the SSRO. Our corporate resources functions have been set up to efficiently support the organisation as it pursues its strategic objectives.

We are a small organisation and to ensure a professional standard of service at a cost effective price, we have outsourced a large proportion of our back office transaction functions - including HR, Payroll, IT infrastructure support and security, and Finance. It does not represent good value for money to operate these services in-house.

We were able to secure surplus central government office space and take over the lease of one floor of Finlaison House. We became fully operational in the space from December 2014. This has enabled us to accommodate our staff appropriately and cost-effectively. We are open for business and have already hosted many meetings with industry and government stakeholders.



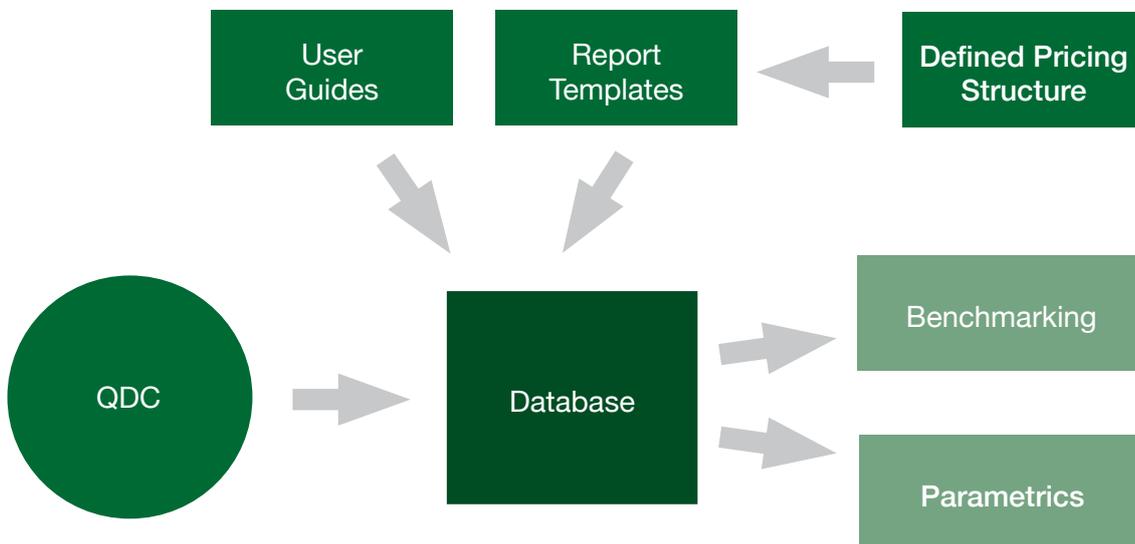
We are acutely aware of the sensitive nature of the information we hold and we apply similar high levels of physical security controls in our office as ‘List X’ suppliers to the UK government.

The design and development of the IT infrastructure for the SSRO began in June 2014, to devise the most appropriate solutions for the different components of the SSRO’s IT service (for example technology management, workplace applications, business applications, infrastructure and networking, and end user computing).

Throughout the process we have adhered to the principles that:

- as an independent organisation the SSRO’s IT services must be demonstrably independent from the MOD’s IT infrastructure;
- appropriate protection of data is paramount (and we are following advice from the Government Security Secretariat and CESG, the government’s technical authority for information assurance); and
- we should take advantage of the best technical and commercial solutions where cost-effective and appropriate.

The solutions have been designed with flexible and scalable capability which we can adapt to the changing needs of the organisation and its users. We have made use of secure private ‘cloud’ technology in line with Cabinet Office guidance for government IT. We have engaged an external expert supplier to assist us in developing the specification and pilot system for the collection, storage and management of data from suppliers who are party to qualifying defence contracts. This will assist us in scoping the final requirements for a long term solution that we are aiming to tender for in October 2015.



In making this decision we considered the options available for the processes, system and tools that will be required to receive, store and analyse the information that will be provided by industry. We also held workshops with colleagues from the SSRO, MOD, and the defence industry. We explored whether a third party supplier could provide and operate with appropriate capability and security, the service of receiving and handling industry data and present an application to be used by the SSRO to analyse the data. We all concluded that an outsourced solution is better than any alternative, and would be able to provide this service securely and cost effectively.

## 5 Recruiting professional staff

The success of the SSRO in meeting its statutory aims will depend on the quality of its staff. In establishing the SSRO as a fully functioning organisation, we faced significant challenges. For several months after the commencement of the Defence Reform Act, the SSRO operated with a minimal staffing complement of 3 part-time secondees, a private assistant, and two contractors on short term contracts, in addition to the Chair. Although we sought additional temporary staff to help establish the organisation, immediate action was constrained by necessary compliance with government wide procedures and guidance on procurement and recruitment.

At its first meeting, the Board approved the SSRO's organisational and salary structure, and agreed to the initial recruitment of permanent posts. In early January 2015 we launched a recruitment campaign focused on our corporate services and technical teams. All job adverts were posted on a bespoke online recruitment microsite; some were also advertised on relevant websites for the role.

Recognising the importance of clear leadership and strong management the Board agreed to early action on the three senior roles: the Chief Executive, the Director of Regulation and the Director of Corporate Resources. The Chief Executive role continues to be filled on an interim basis providing continuity from the transitional period through to full operation. A permanent appointment is anticipated by autumn 2015. Both Director roles have now been filled with employees in post during the first quarter of 2015/16.

Following a largely successful recruitment campaign, our first permanent member of staff started at the end of February 2015, and at the end of April 2015 we had 20 members of staff. We have recruited a team of high calibre individuals, with relevant skills and experience across a range of specialisms. The SSRO will deliver its work with a complement of around 30 people when it reaches full operational capacity, anticipated during 2015/16.

As a newly created regulator recruiting professionals from both the public and private sector, and from within and outside of the defence industry, the SSRO recognises the need for ongoing training and development in order that the highest standards can be maintained. The SSRO is committed to supporting continuing professional development requirements of staff and to ensuring that an appropriate cost effective training and development strategy is implemented.

A performance management programme is being developed to ensure that employees are encouraged to maintain and develop their professional competencies and are supported to develop and succeed in their roles.

## Financial review

This section summarises the expenditure for the SSRO's first year of operation, including the costs incurred by the MOD in establishing the SSRO. In providing the level of detail we have in this first Annual Report and Accounts, we aim to meet our goal of being transparent. This information provides an insight into how our grant funding is spent and, together with our Corporate Plan, sets out how this will develop over the next three years.

During the period 2014/15 the SSRO received Grant in Aid funding of £1.6 million. The first instalment of this funding was not received until November 2014. By 31 March 2015 some £1.0 million of operational costs (including depreciation) had been incurred along with £0.4 million spent on capital items. In addition to this, the MOD has advised that it has spent £0.5 million on behalf of the SSRO during the early stages of establishing the organisation. In this first year the majority of expenditure has been on temporary staff, accommodation and IT costs, coupled with a range of one-off expenditure required to establish the organisation. This included modest refurbishment costs for our accommodation at Finlaison House, a sublet from another government body, and IT set-up and infrastructure costs aimed at ensuring we have a secure physical and virtual environment in which to conduct business.

Expenditure levels have grown month on month towards year end, mirroring a growth in resources and workload. This peaked in March, coinciding with the publication of statutory guidance required to meet our regulatory obligations. The outputs achieved, for a relatively low cost, are testament to the hard work and dedication of a small group of temporary and seconded staff, some of whom we hope to recruit permanently, providing a solid backbone and some degree of continuity as we progress into full operation in 2015/16. The unspent funds from 2014/15 along with Grant In Aid in respect of 2015/16 which the MOD issued in advance, will be carried forward and utilised in 2015/16.

The organisation remains agile and able to scale up infrastructure and support services as the transition to full operation continues. The decision to outsource the majority of back office functions has allowed a flexible approach, drawing on the full breadth and functionality of leading edge providers sourced through G-Cloud and the Crown Commercial Service (government procurement facilities). Short term contracts have been utilised initially, ensuring maximum scope for a more tailored approach as we develop. Security is at the heart of our organisational design. We recognise and have taken account of the actual and potential issues raised by stakeholders.

Looking forward, the financial priorities over the next year will be the transition to full establishment with permanent employees; the roll out of the next stage of our IT strategy, which will include a tender for the secure database; and managing the delivery of our statutory functions in what remains an uncertain landscape. In doing this we will strive to deliver value for money, both for ourselves and in the outcome of our regulatory work.

Marcine Waterman  
**Accounting Officer**  
**29 June 2015**

# Directors' report

## Our remit

The SSRO is an executive Non Departmental Public Body established on 14 July 2014 by the Defence Reform Act 2014. In carrying out its functions the SSRO must aim to ensure:

- that good value for money is obtained in government expenditure on qualifying defence contracts; and
- persons (other than the Secretary of State) who are parties to qualifying defence contracts are paid a fair and reasonable price under those contracts

The SSRO's statutory functions are set out in Part 2 of the Defence Reform Act. The Framework Document between the MOD and SSRO describes the SSRO's functions as follows:

- keeping Part 2 of the Act and the Single-Source Contracts Regulations under review;
- proposing rates relevant to determining the contract profit rate;
- publishing statutory guidance on allowable costs;
- publishing statutory guidance on the Defined Pricing Structure;
- publishing statutory guidance as to reporting, including templates that can be used to meet the requirements of the Regulations and guidance as to how these templates should be completed;
- keeping an up-to-date record of qualifying defence contracts and qualifying sub-contracts (including the duration of those contracts);
- monitoring compliance with the reporting requirements;
- giving (non-binding) opinions and making (binding) determinations;
- acting as the appeal body for MOD's application of civil penalties;
- publishing statutory guidance on penalty amounts for use by the MOD in issuing penalty notices; and
- analysing the reports provided to it by suppliers in meeting the requirement of the Act and Regulations.

As a newly established organisation, the SSRO is still in the process of development. The Single Source Procurement Regime came into force in December 2014, following Parliamentary approval of the Regulations relating to the Defence Reform Act 2014.

# Our Board

## Board members during the year of review

The commentary relating to the Board reflects their activities during the period ending 31 March 2015.



### Jeremy Newman - Chair

Jeremy was appointed Chair of the Single Source Regulations Office in July 2014. He is a chartered accountant and is currently a non-executive Board member of the Crown Prosecution Service and a non-executive Board member, and Deputy Chair, of the Government Legal Department. He is a member of the Council of the Open University, an Honorary Visiting Professor at Cass Business School, a trustee of the Social Investment Business Foundation and a trustee of a number of private charitable trusts. He was Chairman of the Audit Commission, having been appointed to oversee its closure, and was previously Global Chief Executive of BDO, one of the world's leading professional services firms.



### Marcine Waterman – Interim Chief Executive

Marcine became the SSRO's full-time interim Chief Executive in April 2015, having been appointed part-time to the role in September 2014. While at the SSRO, Marcine has overseen the establishment of the organisation and the discharge of several of its statutory functions, including the publication of guidance on allowable costs, the baseline profit rate and determining penalty amounts.

Marcine led the Audit Commission as Controller of Audit until its closure in March 2015, making sure it efficiently and effectively applied its statutory audit regime for

local public bodies, and monitored and managed the performance of the private audit firms providing audit services. Marcine worked at the Audit Commission from 1993, and was involved in most of the Commission's key change programmes including data quality, fire modernisation verification, Best Value, and market testing. Marcine led the largest and most complex outsourcing procurement the commission has been engaged in, and oversaw the successful closure of the organisation in March 2015.

Prior to that, Marcine was a Consultant, at the Public Sector & Government Practice of Ernst & Young (USA), and a Confidential and Legislative Assistant at the White House, US Presidential Office.



### **Jane Attwood - Non-executive member**

Jane was appointed as a Non-executive Member in September 2014. She is the chair of the SSRO's Regulatory Review Committee and a member of the Audit Committee. Jane is the Head of Intelligence at the Financial Conduct Authority, and a member of the Advisory Council at the Royal United Services Institute, and of the Defence and Security Committee at the London Chamber of Commerce. Her previous roles include: Commercial and Development Director, JTiP at Protection Group International; Group Fraud Prevention Director at Lloyd's Banking Group; Deputy Director, Prevention and Alerts at the Serious Organised Crime Agency; Vice President, Market Development at BAE Systems; and an earlier career in HM Diplomatic Service.



### **Marta Phillips OBE - Non-executive member**

Marta was appointed as a Non-executive member in September 2014. She is the chair of the SSRO's Audit Committee. Marta is also currently a member of the council at the Institute of Chartered Accountants of Scotland, an independent member of the Audit and Risk Committee at the Association of Accounting Technicians and a member of the Board of Governors at Ravensbourne College. She was the Pensions Advisory Service's Chief Executive and Accounting Officer between 2010 and 2013. Prior to that, she was Director of Compliance at the National Lottery Commission; and Head of Finance for the European Social Fund Unit in the Department for Education and Employment. Before that, she worked for Midland Bank plc (now HSBC) and at the Stock Exchange. She trained with Ernst & Young. Marta was also Chair at the Viridian Housing Association, and Audit Committee Chair and Executive Chair at Ujima Housing Association. Her OBE was awarded in 2006 for services to social housing.



### Clive Tucker - Non-executive member

Clive was appointed as a Non-executive member of the SSRO in September 2014. He is the Chair of the SSRO's Referrals Committee and a member of the Regulatory Review Committee. Clive is currently a director at Pitch Partners Ltd, a business consultancy that was established by former city law firm partners who identified a need for an advisory service on new business propositions for commercial law firms and other professional services organisations. Clive is also a non-executive National Committee Member and audit committee chair at the Forestry Commission England. His previous roles include being a solicitor and partner at international law firm Ashurst LLP, where he advised on major procurement projects and other commercial transactions.

### Board appointment dates

Name	Start date	End date
Jeremy Newman <sup>2</sup>	21/07/14	20/07/17
Marcine Waterman <sup>3</sup>	15/07/14	1/10/15
Jane Attwood	29/09/14	28/09/17
Marta Phillips	29/09/14	28/09/17
Clive Tucker	29/09/14	28/09/17

### Board personnel declared interests

The following disclosures relate to the activities of the Chair and members during the currency of their appointments in the year. The disclosures arise where a Board member has been in a position of influence resulting from election to, receiving remuneration from, or appointment to any organisation:

- that is a central government body; and
- that falls under the SSRO's statutory functions or is a provider or receiver of significant services to or from the SSRO.

<sup>2</sup> The Chair of the SSRO, Jeremy Newman, became Chair Designate in May 2014 and was formally appointed in July 2014

<sup>3</sup> Marcine Waterman was on secondment to the SSRO between 15 July 2014 and 31 March 2015. She has subsequently been appointed as Chief Executive on a fixed term contract until 1 October 2015.

### **Jeremy Newman, Chair**

- Chairman of the Audit Commission (until 31 March 2015)
- Crown Prosecution Service – Non-executive Board Member. Chair of audit and risk committee
- Treasury Solicitor’s Department – Non-executive Board Member. Chair of audit and risk committee

### **Jane Attwood**

- Head of Intelligence, Financial Conduct Authority
- Member of the Advisory Council at the Royal United Services Institute
- Member of the Defence and Security Committee at the London Chamber of Commerce

### **Marta Phillips**

- Member of the Council at the Institute of Chartered Accountants of Scotland
- Independent Member of the Audit and Risk Committee at the Association of Accounting Technicians

### **Clive Tucker**

- Non-executive steering board member and audit committee chair at the UK Space Agency
- Non-executive member, Forestry Commission England

### **Marcine Waterman**

- Controller of Audit at the Audit Commission (until 31 March 2015)

## Our auditor's details

The financial statements are audited by the Comptroller and Auditor General. He has not provided any other service to the SSRO during the year. The audit fee is disclosed in note 3.

The Interim Chief Executive confirms that:

- there is no relevant information of which the auditors are unaware;
- she has taken all the steps she ought to ensure that she is aware of all relevant audit information; and
- she has taken all the steps she ought to ensure that the Comptroller and Auditor General is aware of all relevant audit information.

# Remuneration report

## Remuneration Policy

The SSRO's Framework Document states that the SSRO will operate a pay scheme that will be determined by the SSRO Board, within the budget allocated to it. The organisational structure and recruitment plans were noted at the first Board meeting and the Board approved the structure of the Executive Committee. All arrangements comply with current government guidance on public sector pay.

## Service Contracts

There were no Senior Managers or Directors in post by 31 March 2015. The Director of Corporate Resources has been appointed and started in post on 20 April 2015. All appointments are made on merit on the basis of open and fair competition.

The remuneration of the Chair and the non-executive members is set by the Minister for Defence Equipment, Support and Technology. Remuneration of the Chair and the non-executive members is by payment of salaries and they have no entitlement to performance related pay or pension benefits. The non-executive members are paid £500 per day and the Chair is paid £550 per day. The non-executive members are appointed to work between two and four days per month on average and the Chair an average of two days per week.

## Salary and pension entitlements

The following sections provide details of the remuneration and pension interests of the most senior managers of the SSRO during 2014/15, and have been subject to external audit.

## The Chair and Non-Executive Directors

The following table summarises the salaries of the Chair and the non-executive members and has been subject to audit.

	2014/15
	£000
Jeremy Newman (Chair) - Appointed July 2014*	45 – 50** (annual equivalent 55 – 60)
Marta Phillips - Appointed September 2014	5 – 10 (annual equivalent 10 – 15)
Clive Tucker - Appointed September 2014	5 – 10 (annual equivalent 10 – 15)
Jane Attwood - Appointed September 2014	5 – 10 (annual equivalent 10 – 15)

\* Jeremy Newman was the Chair designate from May 2014 until appointment in July 2014.

\*\* The Ministry of Defence paid £35,000-£40,000 for the Chair's services from May 2014 to January 2015. This is included in the total remuneration figure above.

There were no other benefits paid to the Chair or non-executive members.

### Senior Management

Marcine Waterman was seconded from the Audit Commission as a part-time Interim Chief Executive. The secondment started from 15 July 2014 and was for up to two days per week. The total costs (including VAT) of the secondment were in the range of £30,000-£35,000. Costs in the range of £20,000-£25,000 relating to the period until 31 December 2014 were borne by the MOD. Costs in the range of £10,000-£15,000 relating to the period from 1 January until 31 March 2015 were borne by the SSRO. Remuneration details for directors and senior staff at the Audit Commission can be found in its Annual Report and Accounts.

No other senior managers were engaged or employed during the period.

### Hutton Fair Pay Review Disclosure (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid director and the median remuneration of the organisation's workforce. No directors or other senior staff were employed during the period, nor did the SSRO have a full workforce in place, therefore no disclosure has been included for this year. A full disclosure will be included in the following year's accounts.

### Salary

Salary includes gross salary and any other allowances to the extent that they are subject to UK taxation. This report is based on accrued payments made by the organisation and thus recorded in these accounts.

### Benefits in kind

No benefits in kind were paid or became due in 2014/15. The definition and monetary value of benefits in kind covers any benefits provided by the organisation and treated by HM Revenue and Customs as a taxable emolument.

### Bonuses

No bonuses were paid or became due in 2014/15.

Marcine Waterman  
**Accounting Officer**  
**29 June 2015**

Signed in respect of the Annual Report, comprising the Strategic Review and Directors' Report, (contained on pages 6 to 26), and the Remuneration Report (pages 27 to 29)

# Statement of responsibilities

## Board members' responsibilities

The SSRO's Corporate Governance Framework sets out that the Board is responsible for:

- the discharge of the SSRO's functions;
- providing strategic leadership, direction, support and guidance, and overseeing the development and implementation of strategies, plans and priorities of the SSRO;
- overseeing the development and review of the SSRO's aims and corporate objectives;
- allocating within the SSRO the budget that has been agreed by the Department, ensuring that the SSRO uses resources efficiently and achieves value for money;
- monitoring the SSRO's performance and work, and ensuring that it receives and reviews regular financial and performance information concerning the management of the SSRO;
- observing high standards of corporate governance at all times, including by using the independent Audit Committee to help the Board to address key financial and other risks;
- putting in place effective arrangements to provide assurance on risk management, governance and internal control;
- ensuring that the SSRO operates within its statutory remit and the limits of its statutory authority and any delegated authority agreed with the Department, and in accordance with any other conditions relating to the use of public funds;
- ensuring that the MOD is kept informed of any changes that are likely to impact on the strategic direction of the SSRO; the attainability of its targets; and any concerns about the activities of the SSRO, and determine the steps needed to deal with such changes; and
- ensuring that, in reaching decisions, the Board takes into account legislation and guidance issued by the MOD.

The Board regulates its own proceedings, and has approved Standing Orders for that purpose.

On behalf of the Board, the Audit Committee reviews and challenges the SSRO's internal control systems; assessment and management of risk; financial, accounting and tax policies, practices and processes; and arrangements for controlling and reporting expenditure.

The Board may choose to delegate to the Chief Executive specific matters that would otherwise be reserved to the Board. The matters that are delegated to the Interim Chief Executive are set out in the SSRO's Corporate Governance Framework.

### **Statement of Accounting Officer's responsibilities**

In accordance with paragraph 12 of Schedule 4 of the Defence Reform Act, the SSRO must keep proper accounts and proper records in relation to them, and prepare a statement of accounts in respect of each financial year. The Secretary of State may give directions to the SSRO about the content and form of the statement, and the methods and principles to be applied in preparing it. Paragraph 13 of Schedule 4 of the Defence Reform Act states that the SSRO must prepare a report on its activities during each financial year. The report must include the statement of accounts in respect of that year.

The accounts are prepared on an accruals basis and must show a true and fair view of the SSRO's state of affairs at the year end, including its income and expenditure, its financial position, changes in taxpayers' equity, and cash flows for the accounting year.

In preparing the accounts the Accounting Officer will:

- observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the accounts; and
- unless inappropriate, prepare the accounts on a going concern basis.

The Interim Chief Executive is currently the Accounting Officer for the SSRO. HM Treasury's Managing Public Money sets out the responsibilities of the Accounting Officer, which include ensuring regularity and propriety in the use of public money; proper governance structures; effective decision making; and sound financial management.

# Governance statement

## 1. Scope of responsibility

As Accounting Officer, I am responsible for upholding sound internal controls that support the SSRO's policies and objectives. The internal controls safeguard the public funds and assets for which I am personally responsible under Managing Public Money.

## 2. Background to events in 2014/15

During 2014/15, the SSRO has:

- established governance arrangements, to enable the Board to make robust, evidence based decisions in line with governance best practice;
- engaged with its key stakeholders in the defence industry and government;
- discharged its statutory functions, including publishing guidance on the contract profit rate, adjustments to the baseline profit rate, allowable costs and penalty amounts; and published report templates and user guides for information submissions to SSRO;
- outsourced a large proportion of our back office functions - including HR, Payroll and Finance;
- established a small, efficient corporate resources team;
- recruited high calibre staff, with the necessary skills and experience across a range of specialisms to deliver our corporate plans / statutory functions; and
- opted to take internal audit services from the GIAA.

During 2014/15 the SSRO was resourced predominantly with secondees and temporary staff. Overall resource levels increased from one temporary member of staff in July 2014 to three secondees and three temporary staff by December 2014, supporting the first Board meeting and the establishment of the organisation. By year end resources levels had increased to 17, of whom 3 were permanent members of staff. Throughout this period all significant decisions were made by the Interim Chief Executive as the Accounting Officer for the SSRO.

Throughout this period as the organisation was established and grew in size, the SSRO has operated robust internal controls and risk management arrangements, to ensure that we manage public funds and our services effectively.

The foreword and strategic review sections of this report describe events in 2014/15 in more detail.

### 3. Governance framework

#### 3.1. The purpose of the governance statement

The governance statement, for which I as Accounting Officer take personal responsibility, is intended to provide a clear understanding of the SSRO's business and its control structure. It sets out the stewardship arrangements for the SSRO and supplements the accounts, together providing a record of how the SSRO has performed in the first months of its existence.

This statement also explains how the SSRO has complied with good governance principles and reviews the effectiveness of these arrangements.

#### 3.2 SSRO's structure and governance framework

The SSRO's governance framework and arrangements for internal control are designed to manage risk to an optimum level, rather than eliminate all risk of failure, to fulfil statutory obligations, policies, aims and objectives. The governance documents and others referred to in this section are all available on the SSRO's website.

The Board approved the SSRO's Corporate Governance Framework at its first meeting on 13 October 2014. The document sets out the responsibilities and procedures that are in place for governing the SSRO to a high standard; lays down the Board's key responsibilities, and the conduct expected of members and staff; and states the Board's powers of delegation, and its proceedings. It clearly sets out matters that are delegated and those that are reserved to the Board. The Framework reflects the principles set out in corporate governance in central government departments: code of good practice, which was published in 2011. The Corporate Governance Framework is extant at the date of approval of the Annual Report and Accounts. At no time has any part of the SSRO's system of internal control failed or been suspended.

The SSRO subscribes to the seven principles of conduct underpinning public life as set out by Lord Nolan - selflessness, integrity, objectivity, accountability, openness, honesty and leadership. These principles are set out in the SSRO's Code of Conduct for Board members.

As an executive NDPB, the SSRO operates under a Framework Document, agreed with its sponsor, the Ministry of Defence.

The SSRO is managed and overseen by its Board. During the reporting period, the SSRO Board comprised the Chair; three non-executive members; and the interim Chief Executive. The number of executive members must be fewer than the number of non-executive members. Appointments of non-executive members are made by the Secretary of State for Defence. Executive members are appointed by the Board.

#### 3.3 The Board

The Corporate Governance Framework states that the Board is responsible for the following:

- the discharge of the SSRO's functions;
- providing strategic leadership, direction, support and guidance, and overseeing the development and implementation of strategies, plans and priorities of the SSRO;
- overseeing the development and review of the SSRO's aims and corporate objectives;
- allocating within the SSRO the budget that has been agreed by the Ministry of

Defence, ensuring that the SSRO uses resources efficiently and achieves value for money;

- monitoring the SSRO's performance and work, and ensuring that it receives and reviews regular financial and performance information concerning the management of the SSRO;
- observing high standards of corporate governance at all times, including by using the independent Audit Committee to help the Board to address key financial and other risks;
- putting in place effective arrangements to provide assurance on risk management, governance and internal control;
- ensuring that the SSRO operates within its statutory remit and the limits of its statutory authority and any delegated authority agreed with the MOD, and in accordance with any other conditions relating to the use of public funds;
- ensuring that the MOD is kept informed of any changes that are likely to impact on the strategic direction of the SSRO; the attainability of its targets; and any concerns about the activities of the SSRO, and determine the steps needed to deal with such changes; and
- ensuring that, in reaching decisions, the Board takes into account legislation and guidance issued by the MOD.

The Corporate Governance Framework also describes individual responsibilities for the Chair and for members, distinguishing between non-executive members and executive members where necessary. The document sets out the Board's authority to appoint committees and determine their procedure, and the Board's role concerning the corporate and business plans, internal audit, the Annual Report and Accounts, external audit and value for money examinations.

During 2014/15 the Board carried out several actions, including considering and approving:

- the Corporate Governance Framework and Code of Conduct for Board members (both of which are published on the SSRO website);
- the Framework Document, which laid down the relationship between the SSRO and the MOD, and described the purpose and responsibilities of the SSRO and how SSRO would be operated and governed;
- the Financial Framework between the MOD and SSRO, following delegation to the Chair and Interim Chief Executive;
- the SSRO's approach to its statutory functions, including its responsibilities in relation to the contract profit rate and allowable costs guidance;
- the structure of the Executive Committee, and the SSRO's sub-committee structure;
- the proposal that the SSRO should receive internal audit and assurance services from GIAA;
- the SSRO's whistleblowing, expenses and gifts and hospitality policies;
- the corporate budget for 2014/15 and annual budget for 2015/16; and

- the SSRO's stakeholder management strategy, including the proposal that the Board should hold a bi-annual forum with the prime defence contractors and the MOD.

The Board receives the minutes of all Committee meetings. The SSRO Board's agendas and minutes are published on its website.

In 2014/15 the Board and its sub-committee structure was as follows:



Board members attended the following meetings of the Board and its sub-committees. There are currently four non-executive members of the Board, including the Chair.

Meetings attended (of the total meetings held which could have been attended)				
Board	Board meetings	Audit Cte	Reg'y Review Cte	Referrals Cte
Jeremy Newman	5/5	N/A	2/2	1/1
Marcine Waterman	5/5	1/1	2/2	1/1
Jane Attwood	4/5	1/1	0/2	N/A
Marta Phillips	5/5	1/1	N/A	N/A
Clive Tucker	5/5	N/A	2/2	1/1

The Chair ensures that all members are involved fully in the work of the Board and assesses their individual performances. He also ensures that each of them is fully briefed on the terms of his or her appointment and on rights, duties and responsibilities. Recognising that it is best practice to review the Board's effectiveness, the Chair considers the appropriate timing for a review.

### 3.4 The SSRO Audit Committee

On behalf of the Board, the Audit Committee is responsible for the independent review of the systems of internal control, key risks and risk management and of the external audit processes, and spending. The Audit Committee formally met once after being created by the Board in the latter part of 2014/15. The Committee considered the arrangements for the National Audit Office and GIAA to provide audit services to the SSRO, and also scrutinised the timetable for the Annual Report and Accounts. It approved the

SSRO's financial policies, accounting policies, insurance arrangements and risk management policy.

The Committee ensures that the Board has effective internal audit and assurance arrangements in place. It appoints the internal auditors, approves their work plans and receives all internal audit reports, including management responses. It considers the results of the National Audit Office's external audit of the SSRO, and oversees the production of the SSRO's Annual Report and Accounts, before they are submitted to the Board for approval. The Audit Committee follows up all agreed internal and external audit recommendations to ensure that management has taken them forward.

During 2014/15 the Audit Committee was chaired by Marta Phillips, with Jane Attwood as the other non-executive member. As Accounting Officer, I attend meetings of the Audit Committee.

The Committee will present an annual report to the Board with the intention of commenting on the SSRO's governance and affirming that suitably robust controls are in place. The Committee's effectiveness will be regularly reviewed.

### 3.5 SSRO Regulatory Review Committee

The SSRO is required by the Defence Reform Act 2014 to keep Part 2 of the Act and the associated Single Source Contract Regulations under review and to recommend to the Secretary of State such changes as it considers appropriate. The Act also requires the SSRO to provide its assessment each year of the appropriate baseline contract profit rate and any adjustments for that year. To enable it to carry out this function, the SSRO has a Regulatory Review Committee consisting of three members. During 2014/15 the Regulatory Review Committee was chaired by Jane Attwood, and Clive Tucker was also appointed to it as a non-executive member. I am also a member of the Committee. It will meet at least four times each year.

The Regulatory Review Committee presents such recommendations as it considers appropriate to the next Board meeting. The Committee met twice during the period covered by this Annual Report and focused particularly on guidance on adjustments to the profit rate, guidance on the penalty amount, report templates and user guides, and the defined pricing structure.

### 3.6 SSRO Referrals Committee

The Referrals Committee is responsible for considering all matters related to the functions listed below, as and when they arise:

- price adjustments;
- determinations about the contract profit rate;
- determinations about allowable costs;
- determinations about final price adjustments;
- determinations about the use of records;
- investigating confidentiality obligations;
- determining whether a contract is a qualifying sub contract;
- overruling a notice that Part 2 of the Act and the Single Source Contract Regulations 2014 should cease to apply to a sub-contract;
- determinations on a penalty; and
- opinions and determinations.

Two Committee members are permanent, selected from the non-executive Board members. The Referrals Committee is chaired by Clive Tucker, and Jeremy Newman is a member of the Committee. Additional members will be drawn from the SSRO's panel of experts and will be appointed to the Committee as required.

The Committee met once in 2014/15 and gave its main attention to the SSRO's internal procedure on referrals and on the recruitment of external panel members.

### 3.7 SSRO Executive Committee

The SSRO has an Executive Committee, responsible for the day-to-day management of the SSRO. I Chair the Executive Committee and the members are the SSRO's Director of Corporate Resources and the Director of Regulation. As neither of the Directors were in post during the 2014/15 financial year, the Executive Committee did not meet during the reporting period.

### 4. Risks and internal controls

Internal controls aim to reduce risk, not remove it. The SSRO gains assurance that risks are kept under control by ensuring controls are robust in design and work as intended.

The principal features of the system of internal control in place throughout the year are:

- an organisational structure that supports clear lines of communication, monitoring, reporting and accountability;
- plans, objectives and priorities which take account of risk and are approved by the Board; and
- a corporate risk policy approved annually by the Audit Committee.

A transitional risk register was created and overseen by the SSRO Transitional Programme Board, comprising representatives from the SSRO and MOD. Risks in this register have been either closed or transferred to the SSRO's corporate risk register.

#### 4.1 Risks and risk management

Risk management is an integral part of the SSRO's internal control framework, for which I am responsible. The SSRO's Corporate Governance Framework states that it is the Board's responsibility to put in place "effective arrangements to provide assurance on risk management, governance and internal control" and that "The Audit Committee will have responsibility for the independent review of the risk management system", while

reporting to the Board on the SSRO's risk management arrangements. The Chief Executive's responsibility is to put in place appropriate arrangements for risk management, which are overseen by the Board and Audit Committee.

During the establishment of the SSRO, the joint MOD-SSRO Transitional Programme Board, which monitored the progress of the programme to establish the SSRO, maintained detailed risks and issues registers.

The Transitional Programme Board risk register had three overarching risks and a number of other transitional, operational and statutory risks. Many of the risks have been successfully mitigated and closed. The operational risks that have been transferred in amended form include:

- the corporate budget being insufficient to resource our work;
- higher than expected volumes of qualifying defence contracts being signed; and
- that industry might try to overwhelm the regime with numerous requests for opinions and determinations.

The risks in the Transition Programme Board's risk register have been either successfully mitigated and closed, or transferred and included in the SSRO's corporate risk register. SSRO risk management arrangements will be proportionate to the scale of the organisation; there will be a single corporate risk register and we expect to have between 10 and 20 risks. Executive Committee members will manage local risks and only include risks in the corporate risk register if they are significant. The Audit Committee considered the risk register in June 2015

The Director of Corporate Resources will be Executive Committee member responsible for the SSRO's overall risk management arrangements and for reporting on risk to Executive Committee meetings. Members of the Executive Committee will manage the individual risks to their functions and projects.

The Executive Committee will consider its tolerance for each risk, as follows:

- High – the SSRO would not suffer an adverse impact if the risk came about, so will not assign significant resources to mitigating the risk;
- Medium – the SSRO would be affected if the risk came about and will take proportionate action to avoid the risk; or
- Low – the SSRO would be fundamentally affected if the risk came about and will seek to avoid the risk if possible.

The SSRO's tolerance of risk is usually low - this is especially true of stakeholder and reputational risks. The Executive Committee needs to consider for each risk the reputational implications for the SSRO if it was realised.

Our internal auditor, GIAA, has stated in its audit plan that it will review how risks are managed, to ensure the risk management policy and procedures are being applied properly and consistently across the SSRO. The SSRO's Audit Committee has approved this plan. Internal audit will present an assurance report to the Audit Committee on risk management, commenting on whether the risk register includes all relevant risks, risks properly assessed and effectively managed. Our internal auditors have no operational responsibility for risk management.

## 4.2 Financial management

The SSRO has effective controls in place to forecast, manage and report on its income and spending.

The SSRO Board considers the SSRO's performance and progress against its budget and Corporate Plan. For 2014/15 there was no Corporate Plan as this was the first year of operation. A 'Transition Plan' was in place, which was monitored and reviewed by the SSRO in collaboration with MOD through a Transitional Project Board.

The SSRO will approve all spending before supply and publish details of individual spending over £25,000 on its website.

## 5. How we evaluate internal controls

### 5.1 The Audit Committee

The role of the Audit Committee is set out above.

### 5.2 Internal audit

Since December 2014 internal audit has been provided by GIAA. The Chief Audit Executive reports their independent opinion on the adequacy and effectiveness of the SSRO's system of internal control and make recommendations for improvement. The SSRO also encourages and supports liaison between internal and external audit to achieve a more effective audit, based on a clear understanding of respective roles and requirements. Due to the time available a limited internal audit programme was agreed for 2014/15. A review of governance arrangements was undertaken and substantial assurance was given. The Chief Audit Executive will present a summary of the work of internal audit to the Audit Committee each year which will include a Head of Internal Audit Opinion. The first report was to the June 2015 Audit Committee.

The Chief Audit Executive attends all Audit Committee meetings and has direct access to me and to the Chair of the Audit Committee. The GIAA Chief Audit Executive is afforded the opportunity for a private session with the Audit Committee members at least every year.

### 5.3 External audit

The external auditor, the Comptroller and Auditor General, is appointed by statute. The NAO comments in its annual management letter on governance and controls issues arising from the external audit of the SSRO's financial statements.

A representative of the external auditor is invited to, and attends, all Audit Committee meetings and has direct access to me, to the GIAA Chief Audit Executive and to the Chair of the Audit Committee. The external auditor is afforded the opportunity for a private session with the Audit Committee at least once a year.

## 5.4 Quality assurance over business critical models

I am required to include confirmation that an appropriate quality assurance framework is in place and is used for all business critical models. As part of our project delivery assurance processes, separate independent assurance at key stages of any project will be requested from either the contractor or via an external provider (for example GIAA). There were no projects requiring such assurance during the period.

## 5.5 Information assurance

Until the appointment of the Director of Corporate Resources in April 2015, I was the nominated Senior Information Risk Owner. The SSRO IT Strategy drafted and agreed in 2014 aligns with the new Government security classification and advice from Government Security Secretariat and CESG. It makes use of modern and 'cloud' technologies, in line with Cabinet Office guidance for government IT.

Regulation is an information intensive activity and information assurance is vital to building industry and government confidence in SSRO activities. Almost exclusively the information SSRO handles is at OFFICIAL, and the systems and processes designed and implemented allow to control access to and the distribution of information created or managed by SSRO at that level. This includes features that support users in respecting special handling instructions for information at OFFICIAL SENSITIVE.

SSRO partners with an IT Service Organisation with specialist Microsoft expertise alongside cloud security experts providing cloud connect, protective monitoring and external vulnerability scanning services. Following the work to stand up the first version of SSRO live infrastructure and systems in the first quarter of 2015 a review against CESG cloud security principles is planned for early in the next financial year. Independent accreditation will follow on from that.

During 2014/15 there were no security data incidents that needed to be reported.

## 6. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the SSRO's internal controls. My review of the control framework is informed by the work of the internal auditors and the senior managers of the SSRO, who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

## 7. Significant control issues

Despite the significant challenges during the year, no significant control issues arose during 2014/15 that need reporting in the Governance Statement. The National Audit Office and internal audit has not raised any issues of significance in their management letter for 2014/15.

As part of the review of effectiveness, I am required to disclose any actions taken or proposed to deal with significant control issues. Taking into account the tests in Managing Public Money, external audit and value-for-money reports I can confirm that the SSRO has not had any significant control issues during 2014/15 and currently has no significant weaknesses to address.

The SSRO has upheld internal controls during the year through risk management and other sources of assurance, including internal audit. I therefore believe there are satisfactory controls in place to identify and manage the significant risks faced by the SSRO.

### **Marcine Waterman**

Interim Chief Executive  
29 June 2015

# Annual accounts

## The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Single Source Regulations Office for the period ended 31 March 2015 under the Defence Reform Act 2014. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Board, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to examine, certify and report on the financial statements in accordance with the Defence Reform Act 2014. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Single Source Regulations Office's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Single Source Regulations Office; and the overall presentation of the financial

statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Single Source Regulations Office's affairs as at 31 March 2015 and of the net operating expenditure for the period then ended; and
- the financial statements have been properly prepared in accordance with the Defence Reform Act 2014 and Secretary of State directions issued thereunder.

### Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with

Secretary of State directions made under the Defence Reform Act 2014; and

- the information given in the Strategic Review and Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

### Report

I have no observations to make on these financial statements.

**Sir Amyas C E Morse**

**Comptroller and Auditor General**

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

**9 July 2015**

## Statement of Comprehensive Net Expenditure

for the period to 31 March 2015

		Period to 31 March 2015	Period to 31 March 2014
	Note	£000	£000
<b>Expenditure</b>			
Staff costs	2	314	0
Other expenditure	3	724	0
<b>Total expenditure</b>		<b>1,038</b>	<b>0</b>
<b>Net Operating Expenditure</b>		<b>1,038</b>	<b>0</b>

All expenditure relates to continuing operations. The MOD incurred £187,000 of staff costs and £349,000 of other expenditure during the period to 31 March 2015 which is not reflected in these accounts.

The Financial Statements cover the period from 14 July 2014 to 31 March 2015. The Notes to the Financial Statements on Pages 48 to 55 form part of these accounts.

## Statement of Financial Position

as at 31 March 2015

		As at 31 March 2015	As at 31 March 2014
	Note	£000	£000
<b>Non-current assets</b>			
Plant and equipment	4	366	0
Intangible assets	5	3	0
<b>Total non-current assets</b>		<b>369</b>	<b>0</b>
<b>Current assets</b>			
Other receivables	6	28	0
Cash and cash equivalents	7	1,651	0
<b>Total current assets</b>		<b>1,679</b>	<b>0</b>
<b>Total assets</b>		<b>2,048</b>	<b>0</b>
<b>Current liabilities</b>			
Trade and other payables	8	262	0
<b>Total current liabilities</b>		<b>262</b>	<b>0</b>
<b>Total assets less current liabilities</b>		<b>1,786</b>	<b>0</b>
<b>Taxpayers' equity</b>			
General Fund	9	1,786	0
<b>Total taxpayers' equity</b>		<b>1,786</b>	<b>0</b>

The Financial Statements cover the period from 14 July 2014 to 31 March 2015. The Notes to the Financial Statements on Pages 48 to 55 form part of these accounts.

Marcine Waterman  
Accounting Officer  
29 June 2015

## Statement of Cash Flows

for the period to 31 March 2015

		Period to 31 March 2015	Period to 31 March 2014
	Note	£000	£000
<b>Cash flows from operating surplus</b>			
Net operating expenditure		(1,038)	0
Depreciation	4	6	0
Increase in other receivables	6	(28)	0
Increase in trade payables	8	262	0
<b>Net cash inflow from operating activities</b>		<b>(798)</b>	<b>0</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(372)	0
Purchase of intangible assets	5	(3)	0
<b>Net cash outflow from investing activities</b>		<b>(375)</b>	<b>0</b>
<b>Cash flows from financing activities</b>			
2014/15 Grant in aid		1,648	0
2015/16 Grant in aid		1,176	0
Grant in aid	9	2,824	0
<b>Net cash inflow from financing activities</b>		<b>2,824</b>	<b>0</b>
			0
<b>Net increase in cash and cash equivalents</b>		<b>1,651</b>	<b>0</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>0</b>	<b>0</b>
<b>Cash and cash equivalents at the period end</b>		<b>1,651</b>	<b>0</b>

The Financial Statements cover the period from 14 July 2014 to 31 March 2015. The Notes to the Financial Statements on Pages 48 to 55 form part of these accounts.

## Statement of Changes in Taxpayers' Equity

for the year to 31 March 2015

	£000
<b>General fund opening balance</b>	0
Grant in aid received for 2014/15	1,648
Grant in aid received for 2015/16	1,176
Total Grant in aid received	2,824
Total comprehensive expenditure	(1,038)
<b>General fund as at 31 March 2015</b>	<b>1,786</b>

## Notes to the Financial Statements

### The notes that follow form part of the financial statements.

#### Note 1: Accounting conventions and policies

##### 1.1 Basis of accounts preparation

These financial statements have been prepared in accordance with the 2014/15 Government Financial Reporting Manual (FReM) issued by H M Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the SSRO for the purpose of giving a true and fair view has been selected. The policies adopted by the SSRO are outlined below. They have been applied consistently in dealing with items that are considered material to the accounts. We also include additional disclosures in line with our Accounts Direction (Appendix 1).

##### 1.2 Accounting convention

We prepare these accounts using the historical cost convention, adjusted to account for the:

- revaluation of non current assets to their value to the business by reference to their current costs, and
- valuation of financial instruments at fair value (note 1.10).

##### 1.3 Going concern

These financial statements are prepared on a going concern basis.

##### 1.4 Recent changes to accounting standards affecting the preparation of accounts

We have considered, under IAS 8, whether there have been any changes to accounting policies arising from IFRS that have an impact on the current or prior year, or may have an effect on future years.

We have reviewed any new or amended standards issued by the International Accounting Standards Board but not yet effective, to decide whether we should make any disclosures in respect of those new IFRS that are, or will be, applicable. There are no changes impacting the 2014/15 financial statements.

##### 1.5 Grant in aid

We treat grants, whether revenue or capital as contributions from controlling parties giving rise to financial interest in our organisation and we credit them directly to the fund reserve.

##### 1.6 Value added tax (VAT)

The SSRO is not registered for VAT, therefore any VAT incurred is not recoverable. We expense any VAT to the Statement of Net Expenditure in the period it is incurred.

##### 1.7 Property, plant and equipment

We capitalise office refurbishments, computer equipment purchases and other equipment purchases for individual purchases over £1,000 or grouped purchases over £5,000.

##### 1.8 Intangible assets

We capitalise new software, including any licences that cover the life of the software for individual purchases over £1,000 or grouped purchases over £5,000.

##### 1.9 Depreciation and amortisation

We provide for depreciation on all property, plant and equipment assets and amortisation on intangible assets. We calculate depreciation charges to write off the cost less the estimated residual value of each asset in equal annual instalments over its expected useful life. We have set the expected useful life of each category of asset as:

- leasehold improvements, over the remaining term of the lease;
- furniture, fittings and office equipment five to seven years;
- computer equipment, three to five years; and
- intangible assets, three to five years.

## 1.10 Financial Instruments

The fair value of our financial instruments (other receivables and payables) are valued at their nominal amount as they are due in less than 12 months.

## 1.11 Operating leases

We charge operating lease rentals on a straight-line basis over the lease term.

## 1.12 Provisions

In accordance with IAS 37, provisions are disclosed in the Statement of Financial Position for legal and constructive obligations in existence at the end of the reporting period if the payment amount to settle the obligation is probable and can be reliably estimated.

## 1.13 Accounting estimates

Judgements and estimates are required in applying our accounting policies that may affect the amounts we include in our financial statements. The main area is:

- Non-current assets (notes 4 and 5) - we review non-current assets each year for impairment, in line with accounting standards.

## 1.14 Pensions

SSRO staff are eligible for a pension provided by the Principal Civil Service Pension Scheme (PCSPS). The SSRO has been included in Schedule 1 of the Superannuation Act 1972 as per schedule 4 of the Defence Reform Act 2014. Further details can be found in Note 2.

## Note 2: Staff costs

This note provides an analysis of the staff costs included the Statement of Comprehensive Expenditure.

Staff costs	Employed staff	Non payroll staff	Total
	£000	£000	£000
Salary	64	238	302
Social Security	7	0	7
Pension	4	0	4
Other benefits	1	0	1
<b>Total staff costs</b>	<b>76</b>	<b>238</b>	<b>314</b>

Non payroll costs include costs for short term contracts, agency/temporary staff and inward secondments

The PCSPS is an unfunded multi-employer defined benefit scheme but the SSRO is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation.

For 2014/15, employers' contributions of £4,105 were payable to the PCSPS (2013/14: nil) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014/15 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £113 were payable to an appointed stakeholder pension provider. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable earnings. Employers also match employee contributions up to 3 per cent of pensionable earnings. In addition, employer contributions of £12, 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £158. There were no prepaid contributions made at 31 March 2015.

This note sets out the average number of full time equivalent staff employed during the period.

Staff numbers	Employed staff	Non payroll staff	Total
	£000	£000	£000
Average full time equivalent	2	3	5

There were no redundancies or other departure costs during the period to 31 March 2015.

### Note 3: Other expenditure

The note below provides a breakdown of the other expenditure shown in the Statement of Comprehensive Expenditure.

Other expenditure	Period to 31 March 2015	Period to 31 March 2014
	£000	£000
Accommodation lease costs	169	0
Information Technology	155	0
Professional fees	130	0
Recruitment	67	0
Other accommodation costs	67	0
Legal services	44	0
Outsource services	32	0
Audit fee - external	20	0
Supplies and services	18	0
Publications	9	0
Depreciation	6	0
Audit fee - internal	4	0
Travel and subsistence	2	0
Staff training	1	0
<b>Total other expenditure</b>	<b>724</b>	<b>0</b>

The MOD incurred expenditure during the year which has not been recharged to the SSRO. The MOD have provided details of these costs which we have reviewed but not verified. These are included in the table below for information.

MOD expenditure	Period to	Period to
	31 March 2015	31 March 2014
	£000	£000
Staff costs	187	0
Accommodation costs	167	0
Information Technology	90	0
Professional fees	89	0
Supplies and services	3	0
<b>Total MOD expenditure</b>	<b>536</b>	<b>0</b>

#### Note 4: Property, plant and equipment

This note provides an analysis of the movements in property, plant and equipment shown in the Statement of Financial Position.

	Leasehold improvements	Furniture and Fittings	Information Technology	Total
	£000	£000	£000	£000
<b>Cost</b>				
At 1 April 2014	0	0	0	0
Additions	286	56	30	372
<b>At 31 March 2015</b>	<b>286</b>	<b>56</b>	<b>30</b>	<b>372</b>
<b>Depreciation</b>				
At 1 April 2014	0	0	0	0
Provided in year	3	1	2	6
<b>At 31 March 2015</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>6</b>
<b>Net book value</b>				
<b>At 31 March 2015</b>	<b>283</b>	<b>55</b>	<b>28</b>	<b>366</b>

All property, plant and equipment assets are owned by the SSRO. The SSRO utilised some furniture left in the building by previous tenants. These assets have been capitalised at the cost incurred by the SSRO to bring them into use.

## Note 5: Intangible assets

This note provides an analysis of the movements in intangible assets shown in the Statement of Financial Position.

	£000
<b>Cost</b>	
At 1 April 2014	0
Additions	3
<b>At 31 March 2015</b>	<b>3</b>
<b>Amortisation</b>	
At 1 April 2014	0
Provided in year	0
<b>At 31 March 2015</b>	<b>0</b>
<b>Net book value</b>	
<b>At 31 March 2015</b>	<b>3</b>

All intangible assets are owned by the SSRO. During the period to 31 March 2015 £143 was depreciated on intangible assets.

## Note 6: Other receivables

This note provides an analysis of the other receivables line in the Statement of Financial Position.

	31 March 2015	31 March 2014
	£000	£000
Prepayments	28	0
<b>Total other receivables</b>	<b>28</b>	<b>0</b>

There were no outstanding balances with other government departments as at 31 March 2015

## Note 7: Cash and cash equivalents

The following note summarises the SSRO's cash and cash equivalents as shown in the Statement of Financial Position.

	31 March 2015	31 March 2014
	£000	£000
Cash and cash equivalents	1,651	0

All cash balances are held with the Government Banking Service.

## Note 8: Trade and other payables

This note analyses the SSRO's trade and other payables as shown in the Statement of Financial Position.

	31 March 2015	31 March 2014
	£000	£000
Accruals	262	0
<b>Total trade and other payables</b>	<b>262</b>	<b>0</b>

There were no outstanding invoices at 31 March 2015. The accruals balance includes amounts due to other government departments (£49,000). Further detail on individual amounts is included in Note 14. During the period to 31 March 2015, 77 per cent of undisputed invoices were paid within 5 days.

## Note 9: General Fund

This note shows the movement in the general fund for activities during the period.

	Period to 31 March 2015	Period to 31 March 2014
	£000	£000
<b>General fund brought forward</b>	<b>0</b>	<b>0</b>
Grant in aid received		
Grant in aid 2014/15	1,648	0
Grant in aid 2015/16	1,176	0
<b>Total grant in aid received</b>	<b>2,824</b>	<b>0</b>
Expenditure		
Staff costs	314	0
Other expenditure	724	0
<b>Total expenditure</b>	<b>1,038</b>	<b>0</b>
<b>General Fund carried forward</b>	<b>1,786</b>	<b>0</b>

Grant in Aid relating to 2015/16 was received from the MOD earlier than requested on 31 March 2015.

## Note 10: Financial Instruments

As the cash requirements of SSRO are met through Grant in Aid, financial instruments play a limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the SSRO's expected purchase and usage requirements. The SSRO has little exposure credit, liquidity or market risk.

## Note 11: Capital commitments

The note below details the SSRO's future contracted capital commitments that are not reflected in the accounts as at 31 March 2015.

	31 March 2015	31 March 2014
	£000	£000
Kier office refurbishment	25	0
<b>Total contracted capital commitments</b>	<b>25</b>	<b>0</b>

## Note 12: Commitments under leases

### 12.1: Property lease

The note below shows future minimum lease payments for the SSRO's non-cancellable property operating lease for the period.

	31 March 2015	31 March 2014
	£000	£000
Due within one year	338	0
Due up to five years	1,437	0
Over five years	1,267	0
<b>Total future minimum payments for non-cancellable operating leases for properties</b>	<b>3,042</b>	<b>0</b>

The SSRO spent £169,000 on operating lease payments for property during the period to 31 March 2015.

### 12.2: Photocopier lease

The note below shows future minimum lease payments for the SSRO's non-cancellable photocopier lease for the period.

	31 March 2015	31 March 2014
	£000	£000
Due within one year	1	0
Due up to five years	2	0
<b>Total future minimum payments for non-cancellable photocopier lease</b>	<b>3</b>	<b>0</b>

The SSRO spent £294 on photocopier lease payments during the period to 31 March 2015.

## Note 13: Contingent asset and liabilities

Future costs relating to potential dilapidations relating to the lease for Finlaison House are not included in these accounts. It is currently unclear whether the SSRO will be required to make any payment in the future therefore an amount cannot be accurately estimated.

There are no other contingent assets or liabilities as at 31 March 2015.

## Note 14: Related party transactions

The SSRO's related party disclosures meet the requirements of IAS 24. Disclosure relates to key management personnel of the SSRO, or their close family members, who are in a position of significant influence resulting from being elected to, receiving remuneration from or being appointed to any organisation

- that is a government department; or
- that is a provider or receiver of significant services to, or from the SSRO.

Such transactions are carried out on an arm's length basis and are conducted on normal commercial terms. No amounts were written off or forgiven during the year and outstanding balances were settled under normal trading terms.

All related party transactions over £1,000 and balances are disclosed below.

### Key management personnel

There are no related party transactions to report in the period to 31 March 2015 for key personnel.

### Ministry of Defence (MoD)

The SSRO is a Non Departmental Public Body sponsored by the MOD. During the year we received grant in aid from the MOD of £2,824,000. There are no balances due to or payable by the SSRO at 31 March 2015 (2013/14: nil).

### Other government departments

Government Actuaries Department (GAD): during the year we were invoiced £242,000 by GAD for services received by us. There was £14,000 due, but not invoiced as at 31 March 2015 (2013/14: nil).

Business Innovation and Skills: during the year we were invoiced £4,000 for services received by us. There was £4,000 due but not invoiced as at 31 March 2015 (2013/14: nil).

Ministry of Justice: during the year we were invoiced £7,000 for services received by us. There was no balance due as at 31 March 2015 (2013/14: nil).

OFGEM: during the year we were invoiced £27,000 for services provided to us. There was £27,000 due but not invoiced as at 31 March 2015 (2013/14: nil).

Cabinet Office: At 31 March, there was £4,000 due but not invoiced for services provided to us (2013/14: nil). There were no other invoices during the year.

The SSRO did not invoice any government departments during the period to 31 March 2015.

## Compensation of key management personnel

The compensation of key management personnel is set out within the remuneration report.

## Note 15: Losses and special payments

There were no losses or special payments during the period to 31 March 2015.

## Note 16: Events occurring after the end of the reporting year

The SSRO's financial statements are laid before the Houses of Parliament by the Ministry of Defence. International Accounting Standard 10 (IAS 10) requires the SSRO to disclose the date on which the certified accounts are dispatched by the SSRO to the Ministry of Defence. The authorised date for issue is the date the accounts are certified by the Comptroller and Auditor General.

# Appendix 1: Accounts Direction

## ACCOUNTS DIRECTION GIVEN BY THE SECRETARY OF STATE FOR DEFENCE IN ACCORDANCE WITH SCHEDULE 4, 12(2) OF THE DEFENCE REFORM ACT 2014

1. This direction applies to the Single Source Regulations Office (SSRO)
2. The SSRO shall prepare accounts in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (the FReM) issued by HM Treasury which is in force for the financial year for which the accounts are being prepared. The accounts shall also comply with any additional disclosure or other requirements which have been agreed with the Department or are mandated by relevant UK legislation (for example The Companies Act) or are issued by HM Treasury or the Cabinet Office.
3. The accounts shall be prepared so as to:
  - a) give a true and fair view of the state of affairs as at 31st March each year and of the net operating costs, recognised gains and losses and cash flows for the financial year then ended; and
  - b) provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.
4. Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed in the first instance with HM Treasury.
5. Annual Accounts shall be published for the reporting period ending 31 March 2015 and subsequent financial years, and laid before the House of Commons in accordance with the Parliamentary reporting timetable for the year to which they relate.
6. In addition, SSRO shall operate governance arrangements sufficient to ensure all income and expenditure conforms with the rules on regularity and propriety set out in Managing Public Money.

DAVID WILLIAMS  
DIRECTOR GENERAL FINANCE







ISBN 978-1-4741-2177-4



9 781474 121774