



REPORT

Investigation into the management of contracts by the Ministry of Defence on behalf of the Kingdom of Saudi Arabia

Ministry of Defence

4 What this investigation is about

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1 For more than four decades, the Ministry of Defence (MoD) has run two major programmes through which it manages the supply of military equipment and associated support services on behalf of the Kingdom of Saudi Arabia (KSA).

- The Ministry of Defence Saudi Armed Forces Projects (MODSAP), which began in 1986 as the Al Yamamah programme. Through MODSAP, the prime contractor, BAE Systems Plc (BAE), supplies military aircraft, naval vessels, weapons, training and associated support services to the Saudi Armed Forces. The main MODSAP programmes run on five-year cycles, and the current ones began in 2022.
- The Saudi Arabia National Guard Communications Project (SANGCOM), which started in 1978. SANGCOM delivers telecommunications capability for the Saudi Arabian National Guard (the National Guard). The current work programme runs from January 2020 until September 2025.

2 In 2012, the Serious Fraud Office (SFO) began investigating the prime contractor for SANGCOM, GPT Special Project Management Ltd (GPT), about alleged irregular payments from GPT to a subcontractor made between 2007 and 2012. The SFO investigation and subsequent prosecution resulted in two outcomes.

- In April 2021, GPT accepted its guilt in respect of one offence under the Prevention of Corruption Act 1906.
- In March 2024, two senior staff (a former managing director at GPT and a former part-owner of the subcontractor) were acquitted of one count of corruption, although one was convicted of a separate offence.

This court case related to SANGCOM, and the SFO made no allegations regarding MODSAP.

3 During the court case, the defence raised questions about the MoD's knowledge and involvement in the payments made to the subcontractor which led to the prosecutions. In April 2021, the judge imposing GPT's fine expressly reduced it on the basis that he was satisfied that the UK government was "substantially involved in the historic corrupt arrangements which led to GPT's offending conduct".

Scope of this report

4 In response to the interest generated by the conclusion of the court case, the National Audit Office undertook an investigation to bring transparency to the MoD's current arrangements and activities for managing the MODSAP and SANGCOM programmes. We examined:

- the arrangements the MoD has agreed with the KSA government to manage programmes on its behalf;
- the controls and processes the MoD operates to manage the programmes it runs through these government-to-government agreements;
- the controls and processes the MoD has for making payments under these programmes; and
- the arrangements the MoD has in place to ensure that the controls and processes are working as intended.

5 Our investigation did not examine previous arrangements, including those in place during the period covered by the SFO investigation, which have been superseded. It did, however, consider the extent to which the MoD has applied lessons learned from issues raised during the court case. We did not evaluate the value for money of the arrangements, because they are fully funded by the KSA government.

6 In addition to MODSAP and SANGCOM, the MoD also runs one further, smaller programme on behalf of the KSA – the British Military Mission – through which the UK provides advice and training to the National Guard on infantry and explosive ordnance disposal capabilities. We did not include the British Military Mission in our scope because it does not involve the MoD managing the supply of equipment to the KSA.

7 We conducted our fieldwork from July 2024 to May 2025. Our audit approach is set out at Appendix One.

Summary

Key findings

Background to the programmes

8 The UK government has two government-to-government agreements with the Kingdom of Saudi Arabia (KSA) to manage programmes for the supply of military equipment and support services. Under these agreements, the Ministry of Defence (MoD) is responsible for ensuring that the programmes are delivered in accordance with requirements agreed with the KSA government. This includes, for example, delivering commercial, safety and quality assurance of equipment provided through the programmes and monitoring the performance of contractors. The KSA government is responsible for funding all the costs of the programmes (paragraphs 1.2 to 1.4 and 2.2).

9 The MoD considers that the programmes provide mutual benefits for the UK and the KSA. The MoD's aim is to operate these programmes to strengthen and enhance the defence and security relationship between the UK and the KSA, and to support the UK's prosperity, defence industry and regional influence. In the year ended 31 December 2024, BAE Systems Plc's (BAE's) total revenue from its activities in the KSA, including the Ministry of Defence Saudi Armed Forces Projects (MODSAP), was £2.9 billion. The KSA benefits from accessing the MoD's skills and experience in managing major projects (paragraphs 1.5, 1.8 and 2.2).

Organisation of the programmes

10 Both programmes have clearly defined and structured governance arrangements, including oversight by senior MoD officials. Since 2023, an MoD Director General has overseen MODSAP. Its governance and strategic management include an internal management board chaired by the Director General and joint board-to-board meetings with BAE. The MODSAP team discusses the delivery of the programme with the Saudi Armed Forces and BAE at programme review meetings. The Saudi Arabia National Guard Communications Project (SANGCOM) team is overseen by the MoD's Chief Information Officer, supported by the Director Delivery: Intelligence and Expeditionary Services. SANGCOM's work is overseen by two internal committees, and the delivery of the work programme is monitored by a series of joint bodies which include representatives of both the Saudi Arabian National Guard (the National Guard) and SANGCOM team (paragraphs 1.7 to 1.9 and 2.4 to 2.7).

11 The KSA government funds all the MoD's operating costs for running the programmes. Both programmes incur operating costs such as for personnel and facilities management. The MoD's costs of running MODSAP are paid for by a levy from the KSA government based on the amount paid to BAE each month. Because the monthly levy income fluctuates, the MODSAP team manages its expenditure to accommodate these fluctuations. In 2010 the KSA government approved £1.6 billion funding for SANGCOM, including £0.1 billion for operating costs. The SANGCOM programme is still being funded by this budget, although the National Guard has agreed to increase the amount it pays for operating costs. This is because SANGCOM has not used a prime contractor since January 2020 and is now managing suppliers itself (paragraphs 1.14, 2.8, 2.12 and 2.13).

12 The MoD lets the programmes' contracts with suppliers under English law. The contracts for delivering the MODSAP programme are between the MoD and BAE. These contracts are negotiated and operate under English law, and mirror work packages agreed between the KSA government and the MoD. The MoD has designed the contracts with the aim of ensuring that the UK government will not suffer any loss or liability if BAE fails to deliver its obligations. For SANGCOM, the MoD currently has contracts with nine suppliers across 13 projects, including with local KSA suppliers which may be subject to Saudi Arabian commercial law. The MoD has sought to mitigate any risk associated with contracting directly with local suppliers by letting each contract under English law and including provisions for dispute resolution between it and its suppliers in the UK (paragraphs 1.11 to 1.13 and 2.14).

The MoD's controls and processes regarding the programmes

13 The MoD relies on its prime contractor, BAE, to manage MODSAP's subcontractors. BAE can appoint subcontractors to undertake work funded by MODSAP through one of three routes.

- BAE directly appoints and manages subcontractors from its approved list of suppliers to deliver the core projects. This route accounts for most of the value of the programme.
- BAE manages a small proportion of the programme through 'directed procurement' when a project funded using the MODSAP budget does not fall within BAE's core product lines or project areas. The Saudi Armed Forces instruct the MODSAP team that BAE should either appoint a specific supplier through a single source appointment or run a limited competition to identify a supplier for the task.
- A very small proportion of the programme is through a 'paymaster' route, through which the Saudi Armed Forces contract directly with a supplier and instruct that BAE pays the supplier from the MODSAP budget. The Saudi Armed Forces use this process for purchases including stationery and some defence equipment (paragraph 1.15).

8 Summary

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14 Since 2020, the MoD has contracted directly with its suppliers for SANGCOM rather than using a prime contractor. Between 1978 and 2019 the MoD engaged a prime contractor to deliver the SANGCOM programme. However, when the latest incumbent ceased operating at the end of 2019, the MoD decided that the cost of appointing a replacement outweighed the benefits. The National Guard has the right to require the MoD to modify its procedures, including when procuring and awarding contracts. This includes allowing the National Guard to direct how procurements managed by the MoD are run and to mandate that specific companies should be included or excluded from these competitions. The National Guard has added suppliers, for example when it has a better understanding of potential local suppliers than SANGCOM (paragraphs 2.3, 2.13 and 2.15).

15 The MoD has processes in place to ensure that payments made to the contractors are appropriate. The MODSAP team is responsible for monitoring the programmes' progress and providing assurance to the Saudi Armed Forces that the work undertaken by BAE and its subcontractors has been performed to the required standard and at the agreed contractual rate. Following these checks, designated staff in the MODSAP team and the Saudi Armed Forces authorise the payment to BAE each month. SANGCOM follows operating procedures based on standard MoD practice for processing invoices and making payments to third parties. The SANGCOM finance office is responsible for authorising the payment of purchase invoices raised under the contracts, in conjunction with approval by the commercial and project management teams (paragraphs 1.4, 1.15 to 1.22 and 2.16).

16 Our observations of the processes that the MoD operates over payments to contractors under the MODSAP and SANGCOM programmes did not identify any significant control weaknesses. We reviewed the processes for making payments and carried out transaction and controls testing to examine how the MoD's processes and controls were operating. We found on both programmes that the MoD was operating controls to ensure that payments were properly authorised. For payments made through MODSAP the programme team checked to ensure that work had been completed to the required standard, prices charged agreed with contractual rates, and payments were correctly authorised. In relation to SANGCOM, control activity is manual and relies primarily on segregated authorisations subject to delegated authority limits (paragraphs 1.18 to 1.23 and 2.16 to 2.19).

17 In recent years, the MoD has strengthened its wider assurance framework around the management of the programmes, including learning lessons from the court case. Both the MODSAP and SANGCOM teams have implemented the recommendations from internal audit reviews looking at their governance arrangements. This has resulted in improvements in how both programmes operate. MODSAP's current business plan focuses on its internal governance, security and working practices. It aims to comply with MoD best practice, rules and regulations. The MoD completed an exercise in October 2024 for MODSAP to learn lessons from the court case. In response to its findings, the MODSAP team has initiated quarterly audits of paymaster payments, continued quarterly audits of programme funding transactions and upskilled its staff with bespoke fraud training. The SANGCOM team checks the appropriateness of its decisions with crown legal officers who are on retainer. The programme director discusses issues with his superiors in Defence Digital to ensure he makes appropriate decisions (paragraphs 1.22 to 1.24, 2.4, 2.5 and 2.18 to 2.20).

Concluding remarks

18 We undertook this investigation to bring transparency to the current arrangements relating to the MoD's management of contracts on behalf of the KSA. We found that the MoD has a clear set of controls to manage and oversee expenditure relating to the contracts it manages on behalf of the KSA and that its actions are currently compliant with those controls. It has sought to learn lessons from the court case with which it has been involved and has strengthened its processes. We identified no significant areas of concern.