



MINISTRY OF DEFENCE

**JSP 886  
DEFENCE LOGISTIC SUPPORT CHAIN MANUAL**

**VOLUME 4  
MATERIEL ACCOUNTING**

**PART 6  
LOSSES**

**THE MASTER VERSION OF JSP 886 IS PUBLISHED ON  
THE DEFENCE INTRANET.**

**FOR TECHNICAL REASONS, EXTERNAL LINKS ON THIS  
INTERNET VERSION HAVE BEEN REMOVED.**

**VERSION RECORD**

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| 1.0            | 26/06/08     | Initial Issue   |
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## **CHAPTER 1: INTRODUCTION**

### **PURPOSE**

1. The purpose of this instruction is to provide policy and processes to be applied to ensure all materiel losses are properly identified, investigated, reported and accounted for in the Defence community. It should be read together with the linked publications listed below.

### **INTRODUCTION**

2. Losses are regarded as serious occurrences because they adversely effect operations or the preparation for, or support to, operations. They could also represent a failure to control the resources supplied for a specific purpose and often indicate wider ranging concerns such as a generally inadequate system or specific defects in the organisation, administration, management and supervision of materiel accounting. It is essential that all discrepancies and potential losses are investigated promptly and where loss action, as described in this document, is unavoidable then this is to be undertaken without delay.

3. There are many types of loss in terms of Materiel, Cash and Special Payments. This instruction deals with the identification, investigation and reporting procedures relating solely to Materiel losses (excluding fixed assets). Instructions pertaining to the treatment of other losses, such as fixed assets and cash can be found in JSP 472 Chapter 12: Losses and Special Payments.

4. Materiel Loss is an event, which results in the absence of the materiel or equipment, required in support of operations, operational training, upkeep or maintenance. Losses will result in a stock balance adjustment to remove items from the materiel account and financial write-off action if the full value of the loss cannot be recovered.

5. Write-off is the final stage in the consideration of a loss event. The primary purpose of the procedures leading to write-off is to investigate in order to identify any contributory fault or error and to ensure recurrence is prevented or minimised as far as is possible. All write-off action must be recorded and an audit trail must be maintained.

6. Losses of major significance, such as those that involve fraud; important question of principle or doubts about the effectiveness of existing systems; those containing lessons which are of concern to a wider audience or those that exceed £250k are to be reported through the MOD chain of command to Parliament. The Public Accounts Committee (PAC), which examines major loss cases, has the authority to make searching examination of the cases it sights and may call for explanations from MOD representatives.

### **DOCUMENT SPONSOR**

7. Enquiries are to be made to:

a. Concerning Policy and Policy implementation:

[DES JSC SCM-SCPol - Materiel Accounting 1](#)

Cedar 2B #3246, MOD Abbey Wood, Bristol BS34 8JH

Tel: Mil: 9679 81441, Civ: 030 679 81441

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- b. Concerning Documentation and Accessibility:

[DES SCM P&C- JSP 886 Team](#)

Cedar 2B #3246, MOD Abbey Wood, Bristol BS34 8JH

Tel: Mil: 99679 80952, Civ: 030 679 80952

### **GLOSSARY**

8. A Glossary Support Chain terms are at JSP 886 Volume 1 Part 1A: Glossary.

### **LINKED PUBLICATIONS**

9. The following publications are linked to this instruction:
- a. JSP 384: Management of Defence Accommodation Stores (DAS).
  - b. JSP 462: Financial Management Policy Manual.
  - c. JSP 472: Financial Accounting and Reporting Manual 2010/11.
  - d. JSP 752: Tri Service Regulations For Allowances.
  - e. JSP 754: Tri-Service Regulations for Pay and Charges.
  - f. JSP 830: Manual of Service Law.
  - g. JSP 886 Volume 2: Inventory Management.
  - h. JSP 886 Volume 4: Materiel Accounting.
  - i. DEFSTAN 05-99: Managing Government Furnished Equipment in Industry.
  - j. Land Force Standing Order (LFSO) 4407: Short-Term Loans of Clothing, General Stores and Other Equipments from Land Forces Pools.
  - k. Local TLB Instructions as appropriate.

### **SUPERSEDED PUBLICATIONS**

10. The following publications are superseded by this instruction:
- a. JSP 886 Volume 4 Part 6: Losses. Version 2.0.

## **CHAPTER 2: POLICY**

1. It is MOD Policy that all losses of materiel are investigated and reported in accordance with Director Finance' guidance as described in this instruction. The categories of loss are to be reported to the appropriate management level.

### **RESPONSIBILITIES**

#### **Supply Chain Management**

2. Support Chain Management - Support Chain Policy (SCM-SCPol) is responsible for acting as the MOD focal point for monitoring materiel loss performance standards and for ensuring the spread of best practice across Defence by:

- a. Facilitating the ongoing convergence of existing Defence Materiel Loss policy.
- b. Keeping policies relating to Materiel Loss up to date.
- c. Providing advice and assistance on interpretation of Materiel Loss policy.
- d. Promoting the analysis of performance trends.
- e. Collaborating with stakeholders to identify and implement remedial actions as necessary.
- f. Reviewing consolidated loss returns for trends and producing an end of year narrative on Materiel loss performance.

#### **TLB Loss Reporting Focal Points**

3. Details of Loss Reporting Focal Points (LRFP) are included in TLB finance instructions. Each LRFP is responsible for:

- a. Acting as first point of contact for enquiries relating to losses.
- b. Consolidating quarterly loss returns from subordinate reporting points.
- c. Analysing performance trends within area of responsibility and initiating remedial action where necessary.

4. It is the responsibility of the chain of command to ensure Materiel Loss policy is complied with and for liaising with SCM-SCPol MA when policy review is required.

#### **Inventory Owners**

5. It is the responsibility of each inventory owner to ensure custodians of stock are aware of the loss reporting requirements contained in this instruction by including the requirement for compliance within Command Instructions, Internal Business Agreements (IBAs) and all other similar agreements between the inventory owner and custodian.

#### **Custodians**

6. The custodian is to action, record and report losses in accordance with this instruction. Principal custodians within the MOD are:

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- a. FLCs.
- b. Defence Equipment and Support(DE&S):
  - (1) Joint Support Chain Services – Storage and Distribution (JSCS-S&D).
  - (2) HM Naval Bases.

### REPORTABLE LOSS CATEGORIES

7. Reportable losses are those for which numbers and values are included in the loss statement appended to the Departmental Resource Account (DRAc) and reported to Parliament via the Centre TLB; they are subject to formal loss action as described elsewhere in this instruction. The reportable loss categories are described in JSP 472 Chapter 12 and are summarised in Figure 1 below.

**Figure 1: Reportable Loss Categories**

| Reportable Loss Categories | Description  |
|----------------------------|--|
| B1                         | Fraud, Theft (proven and / or suspected), Malicious and Deliberate Damage (arson, sabotage etc.) |
| B2                         | Negligence, Deterioration in Store, Accidental Damage. Unexplained Losses. Non Culpable losses.  |
| C                          | Fruitless Payment / Constructive Loss  |
| D                          | Claim Abandoned  |

### Reportable Loss Categories B1 and B2

8. The majority of materiel losses will be categorised as either B1 or B2 and are to be investigated in accordance with guidance contained in this document and reported through the appropriate Organisational or Formation / Command HQ. To assist with the correct categorisation of losses consideration is to be given to whether the circumstances surrounding the loss event is due to culpable or non culpable cause.

- a. Culpable losses are due to deliberate acts or omissions, whether proven or suspected, such as fraud, theft, arson, sabotage or malicious damage. In cases where criminal activity is suspected the situation is to be reported to MOD, service or civilian police as appropriate.
- b. Non Culpable losses result from accidental damage or unavoidable and/or unforeseen circumstances. Additionally non-culpable losses can occur where the loss of materiel could be expected in the normal course of MOD business e.g. inventory or equipment damaged or destroyed by enemy fire or due to authorised tests or practice firings. In these instances the loss is to be reported as normal by units and Formation / Command HQ.

### MATERIEL LOSS CODES (MLC)

9. The Reportable Loss Categories described in Figure 1 have been further broken down in order to provide improved monitoring and trend analysis. The list of loss categories to be used can be found at Figure 3.

10. The most relevant MLC is to be allocated on a case-by-case basis. These categories represent the minimum requirements for reporting purposes. Individual TLBs can further sub divide the categories to suit their own business needs as required.

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**Figure 2: Materiel Loss Codes**

| LOSS CATEGORY | MATERIEL LOSS CODE (MLC) | DESCRIPTION   |
|---------------|--------------------------|---|
| B1            | MLC 1                    | Fraud and Theft (proven and / or suspected)   |
|               | MLC 2                    | Malicious and Deliberate Damage (arson, sabotage etc.)  |
| B2            | MLC 3                    | Negligence (including Road Traffic Incidents)   |
|               | MLC 4                    | Unexplained Cause. See Note 1.  |
|               | MLC 5                    | Deterioration in Store (incorrect / inadequate rotation, over-provisioning, excessive holdings of shelf life items etc.)  |
|               | MLC 6                    | Loss in Transit greater than £250.00. See Note 2.   |
|               | MLC 7                    | Accidental Damage (weather, flood, fire (not arson) etc.)   |
|               | MLC 8                    | Trivial Losses less than £250.00 (including loss in transit and small stores losses). Ex Contractor less than £50.00  |
|               | MLC 9                    | Loss due to or in direct support of operations against the enemy.   |
|               | MLC 10                   | Losses arising from authorised tests, experiments or practice firings, air dropping trials and exercises. Shortages due to evaporation, shrinkage etc. Damage through fair wear and tear. Bookkeeping errors. |
| C             | N / A                    | Fruitless Payment / Constructive Loss   |
| D             | N / A                    | Claim Abandoned   |

**Notes:**

1. Where possible, losses are to be identified to a specific cause; MLC 4 is only be used when all other options have been exhausted.
2. The JSP 472 definition of an item in transit is 'an item of materiel taken off charge as an issue at one stock location, and not yet brought on charge at another'. Therefore, any item lost after initial issue from store or any receipt lost following delivery but prior to being taken on charge is to be categorised as MLC 6.

11. It is accepted that losses of inventory or equipment will be incurred due to normal MOD activity (including operations) and the specific design and use of individual equipments / platforms. These include:

- a. Losses due to, or in direct support of operations against the enemy.
- b. Authorised tests, experiments, exercises or trials.
- c. Shortages due to evaporation or shrinkage.
- d. Damage through fair wear and tear.
- e. Bookkeeping Errors.

12. Losses which fall into this category are to be investigated and approved in the normal manner and allocated MLC 9 or 10 as appropriate. However, if the investigation clearly indicates that the loss or damage could have been prevented or was due to culpable causes then MLC 1-8 should be used.

13. When deciding on the categorisation of losses consideration is to be given to whether the circumstances surrounding the loss were due to culpable or non-culpable cause. Whilst not exhaustive, Figure 3 provides some guidance on the categorisation of losses.

**Figure 3: Categorisation of Losses.**

| Loss Category | Example                           | Culpable or Non-Culpable (MLC) |
|---------------|-----------------------------------|--------------------------------|
| B1            | Suspected theft of NVG.           | Culpable (MLC 1)               |
| B1            | Arson                             | Culpable (MLC 2)               |
| B1            | Deliberate damage to inventory.   | Culpable (MLC 2)               |
| B2            | Failure to rotate stock correctly | Non-Culpable (MLC 5)           |
| B2            | Accidental damage due to fire.    | Non-Culpable (MLC 7)           |
| B2            | Losses due to enemy fire.         | Non-Culpable (MLC 9)           |

**Reportable Loss Categories C and D**

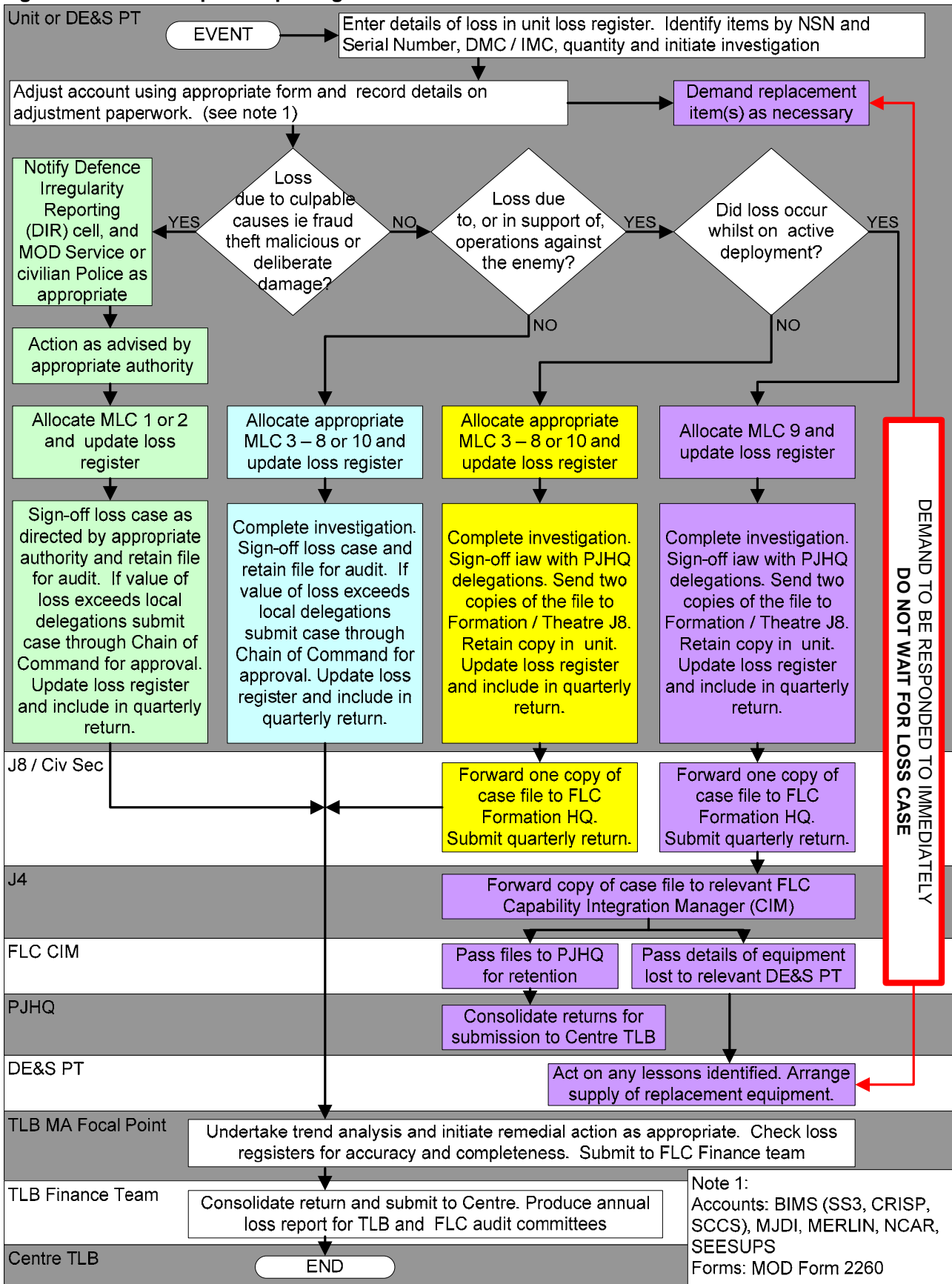
14. In certain circumstances the loss of materiel could result in a Constructive Loss, Fruitless Payment or Claim Abandoned as detailed in JSP 472 Chapter 12. The relevant LRFP will be able to advise units on the action to be taken.

**CHAPTER 3: PROCESS**

1. For all losses the process map detailed at Figure 4 is to be followed. Actions to be taken on each materiel loss case are summarised below, noting these actions are not necessarily sequential and many will be undertaken in parallel:
  - a. Identify the items involved and conduct a preliminary investigation
  - b. Raise MOD Form 2260. Register the loss by allocating the next serial number from the loss register.
  - c. Notify the MOD or Service Police and Defence Irregularity Reporting Cell (DIRC), via Chain of Command, where loss involves suspected or proven Fraud or Theft.
  - d. Notify the MOD or Service Police where the loss involves ACTO items.
  - e. Value the loss.
  - f. Remove the items involved from charge using a Certified Issue Voucher (CIV) giving brief details of the circumstances of the loss and details of the preliminary investigation. This may be delayed if there is likelihood that the items will be recovered during the loss investigation.
  - g. Demand replacement items if required using the relevant Reason for Demand (RFD) Code.
  - h. Investigate fully the circumstances of the loss to establish the cause and initiate remedial action.
  - i. If appropriate, forward the loss form to the Commanding Officer for the assessment of reimbursement charges against the individuals responsible for the loss. (see Chapter 4 Paragraph 21)
  - j. Forward the loss form to the Officer in possession of the correct level of delegated authority for approval purposes.
  - k. Categorise the loss and allocate the appropriate Materiel Loss Code (MLC) in accordance with Figure 2.
  - l. Record full details of the loss in the Losses Register for inclusion in the Departmental Resource Account (DRAc).
  - m. Notify the appropriate authority when deduction from an individual's pay account is to be made.

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**Figure 4: Process Map for Reporting Materiel Losses**



## **CHAPTER 4: PROCEDURES**

### **INITIATION AND REGISTRATION**

1. MOD Form 2260 is to be raised for all losses annotated with the next sequential number from the Losses register and is to be kept as the top most document in the case file. Details of all items lost or damaged are to be recorded by NSN and quantity.
2. The value of the loss is the financial value, which an item is deemed to possess at the time it is lost, destroyed or damaged beyond economical repair (in respect of repairable damage to an item due to culpable cause, the value of loss is the cost of repair). Values for Write Off are to be determined, in accordance with the instructions given in this chapter with VAT being added, where appropriate.

### **Valuation of Loss for Write-Off Purposes**

3. Valuations are detailed in JSP 472 Chapter 12. Additionally, the following is to be applied when valuing a loss case:
  - a. All prices, except those involving food and fuel, are to be VAT inclusive.
  - b. In the cases of loss involving items of stock the Basic Materiel Price (BMP) must be identified for all items concerned. Exceptionally, an estimated price is to be used when a BMP or catalogue price is unobtainable. Notional prices or nominal values are not to be used.
  - c. The value of a stock loss is to be assessed on the basis of BMP, modified as appropriate to reflect materiel condition multiplied by the quantity, plus VAT where applicable.

### **Modification to BMP**

4. The following deductions are to be applied to the BMP to determine the Value of Loss:
  - a. New and serviceable items held in store. Nil reduction.
  - b. Serviceable stores in use, not covered by paragraph 5c. Apply 25% reduction.
  - c. Unserviceable stores and part worn clothing and textiles. Apply 50% reduction (except Defence Accommodation Stores (DAS), which are to be assessed in accordance with JSP 384: Management of Defence Accommodation Stores (DAS) and Adventurous Training equipment where the cost of replacement should be used).
  - d. Stores classified as surplus or scrap prior to discovery of the loss. Use disposal value, either known or estimated.
  - e. Items produced for sale. Use the current selling price.
  - f. Where it is not possible to determine the materiel condition at the time of the loss, serviceable prices are to be used. Nil reduction.

## **Valuations Requiring Special Action**

5. The following items require special valuation action:
  - a. **Precious Metals.** The value of loss of precious metals is to be assessed as follows. Loose quantities - weight multiplied by the last known value, no reduction to reflect the condition at the time the loss occurred.
  - b. **Food.** The full commodity price is to be applied (excludes ORP).
  - c. **Vehicles – Green Fleet.** The value of loss of vehicles is to be assessed as follows (loss or damage to White Fleet vehicles is covered at paragraph 29):
    - (1) Damaged, Repairable – assessed as the cost of repair.
    - (2) Damaged, Total Loss including BER – assessed as BMP minus 25%.

## **INVESTIGATION**

6. Cases of apparent loss are to be investigated promptly and, if the loss is confirmed, action is to begin without delay (but see paragraph 10a below).
7. Loss may be mitigated by promptness and thoroughness of the remedies set in motion and by early reporting to the appropriate higher authority.
8. Where a loss is due to the culpable action or neglect of Service or civilian personnel, the case is to be referred immediately to the appropriate authority for consideration of disciplinary action.
9. Mandatory investigations, Service Inquiries or disciplinary investigations are to be convened expeditiously and findings notified as soon as possible to the officer(s) responsible for approving disciplinary action, write off etc.

## **Criminal Activity**

10. In cases where criminal activity is suspected the following action must be taken:
  - a. Where preliminary investigations suggest the possibility of criminal activity or involve items which may be considered ACTO, the situation is to be reported to the MOD or Service Police and no further investigation of the specific loss is to be carried out by anyone other than as directed by the MOD or Service Police. All cases of actual or suspected fraud or theft must be reported to the Defence Irregularity Reporting Cell (DIR cell) via Fraud and Theft Focal points.
  - b. While the foregoing does not preclude consideration and implementation of measures to prevent a recurrence, care is to be taken to avoid any action which might prejudice possible legal or disciplinary proceedings.
  - c. If MOD or Service Police investigations are precluded by reason of ship sailing/ unit moving, such investigation into the circumstances of the loss is to be carried out where possible on board. The matter is to be reported to the MOD or Service Police / DIR Cell at the earliest opportunity.

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- d. When deciding whether prosecution should be undertaken, due regard is to be given to the advice of MOD, Service or civilian Police and legal advisers as appropriate. If there is sufficient evidence to found a prosecution but a prosecution is not undertaken the case file is to record the reasons for the decision and details of the deciding authority.
- e. In the case of theft or fraud an attempt to recover by civil action should be considered on the advice of MOD, Service or civilian Police and legal advisers as appropriate. If civil action is taken but a full recovery is not made, the reasons must be recorded on the case file. Fines do not reduce the value of the loss.
- f. Copies of Police Crime Numbers, and / or Police reports, including any correspondence must be retained with the loss file.

### Non-Criminal Activity

11. Where preliminary investigations show no indication of criminal activity, investigations are to be initiated to determine the following, as appropriate:

- a. That the physical security afforded to the materiel was sufficient at the time of the loss.
- b. The name of the custodian where known.
- c. If the loss resulted from any defect in, or misunderstanding of, existing procedures or control systems and that stock control methods were appropriate.
- d. Claim action was initiated within the permitted time limits for loss in transit and if not, the circumstances under which claim action was delayed or if the claim was not admitted by the carrier.
- e. Health and safety and security instructions were observed and/or, for example, reasonable weather protection was afforded to the materiel.
- f. Whether the circumstances warrant proceedings being taken under Queens Regulations and /or Manual of Service Law or the Civil Service Disciplinary process.
- g. Whether the loss forms part of a larger loss or of a group of losses arising from the same cause.
- h. The gross value of the loss, the value of any recovery or expected recovery, and the net value of the loss. If appropriate, the reason for full recovery not being taken should be stated.
- i. Whether the loss reveals weaknesses in design, packaging, handling and stowage characteristics or safety of the items, which should be reported to the appropriate design authority for rectification.
- j. Any other relevant point in explanation of the loss.
- k. Action taken to prevent a recurrence.

## General Investigative Procedure

12. The following points should be considered in both instances of criminal and non-criminal activity:

- a. Should the circumstances of the loss be notified to other MOD Departments or Agencies to enable them to take measures to prevent similar occurrence.
- b. The effect of the loss on provisioning, financial expenditure and financial estimates.

## Repairable Damage

13. Where caused maliciously or due to culpable negligence, the value of the loss is to be the cost of making good the damage, including any significant labour costs. However, action is not to be unduly delayed pending receipts of actual costs; instead, a reasonable estimate obtained from an appropriate specialist source is to be used.

14. There is no requirement to raise a loss case to record stock written-down from serviceable to repairable as a result of stores survey.

## Stocktaking Discrepancies

15. Discrepancies in stock holdings (including Small Stores Losses) are to be dealt with in accordance with JSP 886 Volume 4 Part 2: Defence Stocktaking unless it was found during investigation to be attributable to theft, fraud, criminal activity or culpable negligence.

## Trivial Discrepancies

16. Trivial Discrepancies (including Trivial Transit Discrepancies, Ex-contract transactions and Inter Depot Transactions) are dealt with in accordance with JSP 886 Volume 3 Part 15 Chapter 7: Discrepancies. An aggregated line covering all losses resulting from trivial discrepancies registered in the quarterly period must be included on the loss register under MLC 8.

## Trivial Losses

17. An investigation is not required for losses where the value does not exceed £250 (excluding VAT) providing they meet the following criteria:

- a. Arise from a single incident.
- b. Are not considered to be due to a culpable cause.
- c. Do not involve Attractive items or warrant special reporting action as detailed at Annex A.

18. Whilst trivial losses are not subject to financial write off action, they are to be approved by the Officer holding the necessary delegated authority and require separate registration in the loss register under MLC 8. Loss Reports are to be annotated 'TRIVIAL LOSS'. Trivial Losses are to be monitored for trends, which could indicate a particular problem with the adequacy of systems and controls.

### Group of Cases

19. When a number of cases arise from a single event, or irregularity, they are to be dealt with as one case, not as individual cases, and the total sum involved, including VAT where appropriate, will determine the level of authority at which write off can be approved.

### Major Losses and Special Reporting Actions

20. A table detailing circumstances where a loss would be deemed to be a 'Major Loss' or those where special reporting actions apply can be found at Annex A. Full investigation is required for all losses that fall into any of the categories listed regardless of value.

### Losses or Damage of Materiel by MOD Personnel

21. When materiel on personal charge (i.e. in the safekeeping of an individual or individuals, either in store or on personal signature) is lost or damaged and it is decided, after investigation, that the loss was the result of an act or omission by an individual(s), suitable reimbursement is to be considered. Separate regulation exists between Service Personnel and Civil Servants (Including RFA personnel):

a. **Service Personnel.** The policy, procedures and limitations to be followed when seeking reimbursement from Service personnel are contained in JSP 830 Manual of Service Law, Chapter 20. Additional guidance is given in Annex B.

b. **MOD Civil Servants.** MOD civilians are bound by the Civil Service Code and MOD Standards of conduct and behaviour. Any losses of material that can be directly attributed to MOD civilians can result in formal disciplinary action. The policy, rules and guidance relating to disciplinary action against MOD civilians can be accessed through the HRMS People Services Portal.

22. Where the loss or damage involves more than one individual, a nominal roll with the details of each person is to be attached to the case file.

### MJDI FLC Users

23. Supplementary instructions for MJDI FOC users are given at Annex C.

### Loss or Damage to Clothing and Service Kit held on Personal Loan Records

24. **Attributable to Service Reasons.** The procedures of assessing the basis for and the amount of compensation paid to personnel for loss or damage to clothing, Service kit and equipment, personal and family effects in circumstances arising from 'exigencies of the Service', is given in JSP 752 Chapter 10 Section 4. JPA Form F014 is to be raised by the officer responsible for the individual(s) who have suffered loss or damage to kit. Replacements are to be made from any compensation paid using the procedures in JSP 886 Volume 6 Part 5: Clothing.

25. **Not Attributable to Service Reasons.** The procedure for the replacement of clothing and service kit lost or damaged in circumstances not arising from 'exigencies of the Service' are contained in JSP 886 Volume 6 Part 5: Clothing. For Territorial Army and Cadets see LFSO 6102.

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### **Loss or Damage to Stores held at Contractor Works**

26. Such losses are to be dealt with in accordance with JSP 886 Volume 4 Part 4: Government Furnished Equipment. Where a valid claim against a contractor is not pursued or is unsuccessful it must be recorded on the materiel loss register as a Category D claim abandoned.

### **Loss or Damage to Defence Accommodation Stores and Barrack Damages**

27. Action is to be initiated in accordance with JSP 384: Management of Defence Accommodation Stores (DAS).

### **Loss or Damage to Stores on Loan from Land Forces Loan Pools**

28. The procedures for dealing with losses or damage to stores on Loan from Land Forces Loan Pools are contained in Land Force Standing Order (LFSO) 4407: Short-Term Loans of Clothing, General Stores and Other Equipments from Land Forces Pools.

### **Loss or Damage to White Fleet Vehicles**

29. White Fleet vehicles are not MOD assets and therefore are not required to be written off, however, there are some specific accounting actions that need to be followed and these are detailed below:

- a. Losses due to damage/destruction of White Fleet vehicles caused by culpable e.g. road traffic incidents due to careless/reckless driving and filling up a car with the wrong fuel – are to be classed as fruitless payments, Category C loss and reported in accordance with JSP472, Chapter 12.
- b. Losses due to other non-culpable causes are not to be treated as a reportable loss and any subsequent repair costs are to be absorbed by the unit as normal business. Supporting evidence relating to this expenditure should be retained for audit.
- c. MOD equipment that has been damaged or destroyed due to it being in the vehicle is to be recorded against MLC 7.

### **Deterioration in Store**

30. Write-down action is necessary where deterioration in store has occurred and this cannot be attributed to culpable cause. Whilst not subject to formal loss action, where the value exceeds locally delegated authority, these are to be reported through the route set out in Annex A.

### **FINANCIAL WRITE-OFF**

31. Normally, a materiel loss is written off by the unit/custodian holding the item on account, either permanently or on loan, at the time the loss occurs. However, where the loss can be attributed to the actions of the inventory owner, responsibility for the investigation and taking loss action lies within the PT, regardless of where the item is held at the time. For a loss in transit where there is doubt about where the loss occurred, the consignor is to take write off action, annotating the last known transshipment point on the loss file and loss register. If the consignor unit has closed, the unit nominated to be the accounting custodian will take write off action.

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32. Financial write-off is not necessary when a reimbursement charge is equal to the value of the loss. Charges initiated and subsequently not recovered are to be treated as a Category D claim abandoned in accordance with JSP 472 Chapter 12.

### **Delegation of Financial Approval Limits**

33. Financial approval to authorise write off is delegated through the Chain of Command on a personal basis.

34. Officers issued with formal letters of delegation who intend to sub delegate must issue formal letters to their subordinate officers, also on a personal basis. Only officers in receipt of a letter of delegated signing powers are allowed to write off a loss. The letter of delegation is not transferable to any future postings. Copies of letters of delegation must be held locally to support correctly authorised entries.

35. An officer is not to write off a loss in which he / she has been personally involved (in circumstances other than as a superior line manager), nor where consideration is being given to the possibility of line management responsibility, collusion or negligence.

36. Delegated financial limits are based on the assessed value of the loss, including VAT where appropriate, irrespective of any recoveries made.

37. Where the value is above locally delegated powers the case must be referred to the relevant LRF / Command HQ Focal Point for preparation and presentation at the appropriate level.

### **Losses within Locally Delegated Signing Limits**

38. For loss cases, which occur within local delegated authority, all documentation relating to the loss cases is to be retained locally. Details of loss cases are also to be included in the loss register.

39. SCM-PCPoI-MA and TLB LRFs have the authority to call forward full case histories for any case authorised locally.

### **Losses Exceeding Locally Delegated Signing Limits**

40. A copy of the loss file is to be sent via the chain of command to the relevant higher formation with the appropriate level of delegation, the original certified copy of the MOD Form 2260, including all supporting documentation, is to be included in the file.

41. A full and comprehensive narrative must accompany the loss case to support the proposed loss action. This is to cover, as a minimum:

- a. Introduction.
- b. Circumstances of the loss.
- c. Investigations.
- d. Actions taken to reduce the net value of the loss including reimbursement where MOD personnel are deemed culpable.

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- e. Procedural changes proposed / introduced as a result of the loss, including evidence of the actions taken.
- f. Disciplinary action taken/proposed.
- g. Any other information considered relevant.

42. Once higher formation action is complete the loss case file is to be returned to the originator who is to annotate the loss register accordingly and file, replacing the originators copy.

### Losses with a Value of or Exceeding £250k

43. All losses valued at or above £250k will require individual notation in the DRAc. All such cases are to be reported in accordance with JSP 472. The loss case must contain a completed copy of the checklist; at JSP 472 Chapter 12, together with all the information listed therein, including a draft press brief. LRFPs / Command HQ Focal Points are to be consulted for clarification of requirements if in doubt.

44. As soon as possible following the above action, full details of the circumstances of the loss and the investigations carried out are to be reported to the relevant TLB via the LRFP/ Command HQ Focal Point for concurrence prior to write off. After write-off action has been taken, these cases are referred to Corporate Financial Accounting Team (CFAT) and to the National Audit Office (NAO) for scrutiny and separate annotation in the DRAc.

45. If it appears likely the Major Loss case will not be finalised before the end of the current financial year, the present position is to be reported to the relevant TLB via the route detailed at Paragraph 40 above.

## LOSS RECORDING AND REPORTING

### Loss File, Loss Case Composition and Submission

46. A separate folder, known as a Loss File, is to be raised for each non-trivial loss, bearing the loss case number for identification purposes. The folder is to contain copies of all relevant correspondence; including reports etc, and is to be filed in strict chronological order.

### Materiel Loss Register

47. Materiel loss registers are to be maintained within each PT / BLB and Unit to record all losses. Loss registers can be held in either manual or electronic format. Units operating CA stock holding accounts are only required to maintain a single loss register held by the Unit QM. A list of the mandatory fields, which the register must contain as a minimum, is [shown at Figure 5](#); further fields may be added by individual TLBs depending on business requirements.

48. A loss category and code must be allocated for each loss case. It is essential that the loss category and code are carefully chosen, as they will be important to subsequent trend analysis.

49. When a loss is confirmed by preliminary investigation, the known details are to be recorded in the loss register immediately with subsequent detail being added as the loss is progressed. In order to avoid duplicate reporting, inventory owners are not to include

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items where an inventory custodian has already taken loss action, including registration and authorisation.

50. A loss category and code must be allocated for each loss case. It is essential the loss category and code be carefully chosen, as they will be important to subsequent trend analysis.

**Figure 5: Mandatory Loss Register Fields**

| Serial | Mandatory Loss Register Field         | Guidance  |
|--------|---------------------------------------|---|
| a.     | Loss Reference                        | Each entry in the Loss Register is to be allocated a unique serial number, linked to the relevant loss file   |
| b.     | Date Loss Occurred.                   |   |
| c.     | Loss Category                         | Select either B1 or B2  |
| d.     | Materiel Loss Code (MLC)              | Select most appropriate MLC   |
| e.     | UIN.                                  |   |
| f.     | BLB Code                              | To be completed by TLB Loss Reporting Focal Point   |
| g.     | Number of Line Items                  | Total number of line items included in the loss case  |
| h.     | Inventory or Domestic Management Code | When multiple line items are included in one loss case the following applies:<br>a. If 10 items or less, each item should be listed on the loss register against the single loss reference.<br>b. If more than 10 items, field (g), (h) and (i) should show the relevant details for the first item involved in the loss only. All other items should be listed on a separate sheet appended to the register, clearly aligned to the relevant loss reference. |
| i.     | NATO Stock Number (NSN).              |   |
| j.     | Short Item Description.               |   |
| k.     | Brief Explanation of Loss.            |   |
| l.     | Gross Value of Loss                   | All values are VAT inclusive where VAT applies  |
| m.     | Recovery Value.                       |   |
| n.     | Net Value of Loss                     | Gross value, less any value recovered   |
| o.     | Date Loss was Written Off / Approved. |   |
| p.     | Loss details reported to DFAU         | Yes or No, as appropriate   |

51. On a quarterly basis, copies of the completed cumulative registers must be submitted to LRFPs. A statement on the cause of the loss or damage and details of any action to prevent recurrence MUST BE included for each loss case where the gross value of loss exceeds £10,000. This information is also essential for the purpose of performance monitoring. The completed register should be submitted within 10 working days of the end of each quarter. Nil returns are required. Details of TLB LRFPs will be promulgated in individual TLB finance instructions.

52. All losses which are still under investigation as at 31 March each year are to be included in the loss register submitted to the Command TLB via LRFPs. There is no requirement to include such losses in any subsequent loss reporting period.

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### **Materiel Recovered After Loss Action Approved within Current Financial Year**

53. Details of the recovery are to be included in the loss file. The authorisation date is to be removed from the losses register and details of the recover annotated in the comments box to ensure that it is not included in the end of year consolidated loss return.

### **Materiel Recovered in a Financial Year Subsequent to that in which the Loss was Authorised and Reported**

54. Details of the recovery are to be included in the loss file and a suitable comment added against the original register entry. However, there is no means of offsetting recoveries against current year losses and they are not to be included as such in loss registers.

### **ADJUSTMENT OF THE STOCK RECORD**

55. Proof that the stock or inventory account has been adjusted to reflect the loss or recovery must be held within the case file. Adjustment is to be made by interactive process or Direct Data Entry (DDE).

56. All issue, receipt and return vouchers connected with loss action are to be cross-referenced to the appropriate loss case and a copy of each voucher is to be placed on the file.

### **AUDIT REQUIREMENTS**

57. A Nominated Officer is to be appointed by name and by post title to maintain the losses register. A Supervising Officer is also to be appointed by name and by post title to oversee maintenance of the loss register; details of Nominated and Supervising Officers should be retained with the loss register. Retention periods as for loss register.

- a. The incoming 'Nominated Officer' is to inspect the register on change of appointment.
- b. The Supervising Officer is to:
- c. Arrange for the maintenance and disposal of the Register.
- d. Inspect the register at least once every 3 months commencing on 1 April each year.
- e. Ensure every effort is made to resolve register entries, which remain incomplete for audit purposes.
- f. Inform the nominated officer by written report of any major errors or instances of the use of incorrect procedures.

58. A record of inspections is to be retained with the loss register, including the date of inspection, the line entries covered by the inspection and the signature of the Supervising Officer,

59. Registers and all documentation relating to a loss case are to be retained locally for a minimum of 6 financial years from the date of the last entry or authorisation.

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60. Amendments to or deletion of manual register entries are to be made in red ink. The use of correction fluid is not permissible. The Nominated Officer is to initial any alterations. Electronic registers, held on a departmental shared drive, should have write access limited to officers authorised by the Supervising officer.

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### ANNEX A: TABULATION DETAILING MAJOR LOSSES REQUIRING FULL INVESTIGATION AND THOSE WHERE SPECIAL REPORTING ACTIONS ALSO APPLY

(Introduced in Chapter 4, Paragraph 20)

**Figure 6: Tabulation Detailing Major Losses Requiring Full Investigation or Special Reporting Actions**

| DESCRIPTION  | Report to Head of TLB via Chain of Command and LFP | Report to CFAT via Chain of Command, LFP and Head of TLB | Defence Irregularity Reporting Cell (DIRC) | MOD Police (Service/ Civilian) | JSP 440 | NBCD Officer (JSP 392) | HM Revenue and Customs |
|--|--|--|--|--------------------------------|---------|------------------------|------------------------|
| Exceed locally delegated signing powers  | X  |  |  |                                |         |                        |                        |
| (Over £250k)   |  | X  |  |                                |         |                        |                        |
| Deterioration in store not due to culpable cause where value is outside locally delegated signing powers   | X  |  |  |                                |         |                        |                        |
| (Over £250k)   |  | X  |  |                                |         |                        |                        |
| Novel or Contentious / those which may receive publicity / cases which raise important questions of principle or where doubts are raised about the effectiveness of a system; or which contain lessons which are of value outside the area which they arise. |  | X  |  |                                |         |                        |                        |
| Involve criminal activity (known or suspected)   | X  |  | X  | X                              |         |                        |                        |
| Are as a result of terrorist activity (known or suspected)   | X  |  |  | X                              |         |                        |                        |
| Involve the following types of materiel:   |  |  |  |                                |         |                        |                        |
| Security classified (CONFIDENTIAL or above)  |  |  |  |                                | X       |                        |                        |
| Attractive to Criminal & Terrorist Organisations (ACTO)  |  |  |  |                                | X       |                        |                        |
| Dutiable (Attracts duty from HM Revenue & Customs)   |  |  |  |                                |         |                        | X                      |
| Radioactive  |  |  |  |                                |         | X                      |                        |
| Small Arms and Associated Ammunition   |  |  |  |                                | X       |                        |                        |
| Explosives.<br>Controlled Drugs.<br>Accountable Drugs.   | X  |  |  |                                | X       |                        |                        |

### ANNEX B: ARMED FORCES ACT 2006 – INDIVIDUAL FINANCIAL REIMBURSEMENT – GUIDANCE

(Introduced at Chapter 4, Paragraph 21)

1. Implementation of the Armed Forces Act 2006 (AFA 06) on 31 October 09 changed the way in which individual financial reimbursement for materiel loss or damage is investigated and administered via Form MOD Form 2260. This section provides guidance to Logistics staff in relation to the losses procedure and the Act. Officers seeking guidance in their role as Legal Advisor to Command should refer to JSP 830 – Manual of Service Law, Chapter 20.
2. The effect of AFA06 is that an individual may only be required to provide financial reimbursement for materiel lost or damaged in circumstances amounting to an offence under section 24 of the Act (damage to or loss of public or service property). For this purpose the individual must either face disciplinary action and reimburse the crown by means of a Service Compensation Order as part of the sentence awarded summarily by CO, or by Court Martial, or face MOD Form 2260 recovery action for deduction from pay in accordance with the Armed Forces (Forfeitures and Deductions) Regulations 2009. Although form MOD Form 2260 is to be raised for the reporting of losses irrespective of which re-imburement method is used, MOD Form 2260 recovery action cannot be taken in conjunction with or following disciplinary action in relation to that loss or damage. JSP 830 Volume 1 Chapter 20 Paragraph 18-22 provides overarching direction and guidance when seeking individual financial reimbursement for materiel loss or damage.
3. The investigation into the loss should not only aim to establish the circumstances of the loss or damage but also whether an offence under AFA06 section 24 has or may have been committed. This need not be a Service Police investigation, and may be conducted by the appropriate Investigating Officer (Line Manager / Departmental or Divisional Officer) of the person suspected of being responsible for the loss, if known.
4. For the purpose of the Act, the ‘authorised officer’ is the Commanding Officer of the individual from whom the deduction might be made. Only an individual’s Commanding Officer may authorise a deduction from pay and then only when he is satisfied that the conduct of the person that resulted in the loss or damage amounted to an offence under AFA06 Section 24. The Commanding Officer should consider the circumstances of the loss or damage, and the individual’s financial circumstances, before authorising a deduction from pay.
5. Individuals should be invited to sign MOD Form 2260, and may admit responsibility for losses. However, such an admission does not in itself constitute an admission of conduct amounting to an offence under the AFA06 Section 24. The Commanding Officer should consider all the evidence and decide whether the circumstances of the loss or damage constitute an offence under that section. In addition, the relevant person should be invited to make representations about the loss or damage, and personal financial circumstances, in order to assist the Commanding Officer when making a decision whether to authorise deduction from pay, and, if so, the appropriate sum.

**ANNEX C: SUPPLEMENTARY MATERIEL LOSS INSTRUCTIONS FOR MJDI FOC USERS**

(Introduced at Chapter 4 Paragraph 23)

**Introduction**

1. This Annex supplements the main instructions and covers arrangements specific to MJDI FOC users. It provides processes and procedures to ensure that all Units operating MJDI comply with Losses policy.

**Process**

2. The Process for the preparation, recording, monitoring and reporting of losses is achieved using the following documentation:

a. **MOD Form 2260: Report of Materiel Loss.** A master document with drop down menus and a continuation sheet designed to be completed online and printed. MOD Form 2260 is designed to:

- (1) Initiate the losses procedure.
- (2) Identify and value the materiel lost or damaged.
- (3) Record the result of the investigation into the loss or damage.
- (4) Identify an individual or individuals responsible for the loss or damage.
- (5) Assessment of any deduction from pay to be sought.
- (6) Record the approval for financial write off (where applicable).
- (7) Remove the items from charge.

b. **Loss Register and Reporting.** Each Unit is to maintain a Materiel Losses Register as described in Chapter 4 Paragraph 47. Each FLC issues separate instructions detailing the format of the loss register. Units are to forward their Quarterly Losses Returns, to include the Loss Register and the Cumulative Certificate of Losses Written Off, to the following:

- (1) Fleet Units – (float and ashore estate) to their respective Tier 3 organisations (or direct to Tier 4 where Tier 3 is not established) in accordance with the latest signalled, quarterly NCHQ Calling Notice. The latest version of the NCHQ Losses Workbook comprising all relevant reports formats and completion instructions is also published to units quarterly by Tier 4.
- (2) LF Units – through their respective Chain of Command.
- (3) Air Units – to their respective Group HQ.

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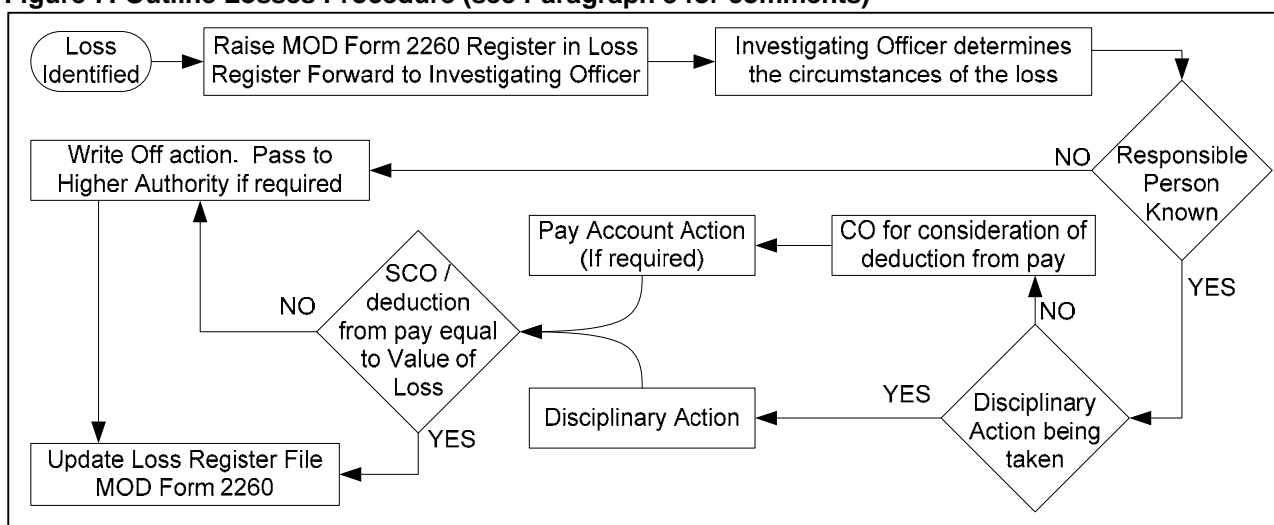
### Procedure

3. The following procedure, summarised in Figure 7 is to be followed. This supplements Chapter 3 and is cognisant of the policy and guidance contained in JSP 830 – Manual of Service Law in respect of individual financial reimbursement.

a. When a loss is identified, 2 copies of MOD Form 2260 are to be prepared and printed. The next sequential number from the Unit's Loss Register is to be used for registration and monitoring purposes. Every item subject to loss investigation is to be entered.

b. The MOD Form 2260 is to be forwarded to the relevant Investigating Officer (Line Manager / Departmental or Divisional Officer) who is to investigate the loss in accordance with Chapter 4 Paragraphs 6-19.

**Figure 7: Outline Losses Procedure (see Paragraph 3 for comments)**



c. On completion of the investigation and where no individual is found responsible for the loss or damage the MOD Form 2260 is to be forwarded directly to the Officer holding the necessary level of financial write off delegation.

d. Where an individual(s) has been named on the MOD Form 2260 as being responsible for the loss, the Investigating Officer is to make specific comment on whether the actions of that individual(s) may have amounted to an offence under Section 24 of the Armed Forces Act 2006 (AFA06).

e. Where disciplinary action is being taken in relation to a material loss or damage, the losses procedure is to be postponed until completion of such action. Once disciplinary action is complete (including any appeal), the MOD Form 2260 is to be forwarded directly to the Officer holding the necessary level of financial write off delegation. Investigating Officers must include details of any Service Compensation Orders (SCO) awarded under disciplinary proceedings relating to the loss or damage.

f. On completion of the investigation and where disciplinary action has not taken place, the MOD Form 2260 is to be forwarded to the individual's Commanding Officer (or those with such powers) for consideration of financial reimbursement. Commanding Officers should only consider awarding a deduction from pay where they are satisfied that the conduct of the responsible person amounted to an offence

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under section 24 of the AFA06. See JSP 830: Manual of Service Law, Chapter 20 Paragraph 18 – 20. For further guidance see Paragraphs 6 – 12 below.

g. MOD Form 2260 forwarded for Pay Account action if appropriate.

h. Where the value of any deduction from pay or Service Compensation Order (SCO) made is less than the calculated Value of Loss, the MOD Form 2260 is to be forwarded to the Officer holding the necessary delegated powers of financial write off for action in accordance Chapter 4 Paragraph 31. The amount recorded for write off should be the gross value of loss minus any deduction from pay or SCO. Losses outside the write off limits of Individual Units are to be staffed through the Chain of Command detailed in Paragraph 2b in accordance with Chapter 4, Paragraphs 40-42. On completion of write-off action the Loss Register is to be updated and the MOD Form 2260 filed.

4. **Losses or Damage to In Service Mess Gear.** Loss of or damage to accountable items, which are not attributed to theft, accident or neglect, are to be investigated by an Officer holding delegated powers of write-off. If, after investigation, the cause of the loss cannot be determined, he / she may use the powers of write-off. In such cases, the loss is to be certified in Part B of Form MOD Form 2260 as follows:

“I have caused a full investigation into these losses. There is no evidence of misuse or neglect and I am satisfied these losses are reasonable in relation to the usage of the particular item”.

5. **Action to be taken when the individual has left the Unit.** When a loss is discovered where the individual responsible for the item has left a Unit, the MOD Form 2260 is to be forwarded, under cover of Accounting Officer's letter summarising the circumstances of the loss, to the individual's new Commanding Officer. Receiving Units are to acknowledge receipt of the MOD Form 2260 within 14 days and action in accordance with Paragraphs 3b to h of the procedure above. On completion, MOD Form 2260s are to be returned to the originating Unit for write-off action (if required).

6. **Losses arising from Receipt Discrepancies.** If a loss becomes the responsibility of the consignee i.e. as a time-barred discrepancy or where proof of delivery is held etc, the demanding Unit is to bring the item(s) to charge and take write off action using loss code MLC 6. These losses are also to be reported in the Loss Certificate.

7. **Cancellation of MOD Form 2260.** When items reported lost are subsequently found after the MOD Form 2260 has been registered but before removal of the item(s) from charge and before re-imburement action has taken place, the MOD Form 2260 is to be cancelled in the Loss register and a copy filed. If the item is found after it has been removed from charge, it is to be brought back to charge. If a deduction from pay was awarded against an individual in relation to the loss, the Human Resource Administrator is to be informed to enable the deduction to be corrected.