



National  
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Chief Review Services Chef - Service d'examen

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*Chief Review Services: **PERSPECTIVE***

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## **FOREWORD**

*This paper was prepared in response to direction from the Deputy Minister. It is intended to provide a view of management issues drawn from multiple individual reports prepared by CRS – rather than dealing with specific functions, organizations, or projects. An advantage is that recommendations derived from separate reports can be seen to have application to different areas within the Department and the Canadian Forces. At the same time, we must acknowledge that, unlike the case for individual CRS reports, senior executive managers and leaders have not had the opportunity to comment on the content of this document. As such, the content must be viewed as the opinions of the CRS Branch.*

*We have strived for a balanced view, based on challenges, risks and opportunities. Although this paper contains criticisms, it is not a bad news document. It is intended to be fair, candid and constructive. At the same time, because our conclusions must be substantiated, we are limited in assessing the full effects and contributions of current initiatives – we can only acknowledge them for their design and, at least in part, for their progress in implementation. This has particular implications for the many recent improvement initiatives brought by the Fin CS and IM Groups.*

*It is also worthy of mention that the assessments and ratings presented in this document are substantially influenced by the high standards that the Defence organization demands of itself, both explicitly and implicitly.*



## RISK, OPPORTUNITY & ACCOUNTABILITY

### *A perspective from Chief Review Services*

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#### **The Context – From Transition to Transformation**

The Department of National Defence (DND) and the Canadian Forces (CF) fulfill a mandate critical to the safety, security and quality of life of Canadians. The Canadian Forces have successfully delivered against commitments at home and on the world stage. This has regularly called upon the Defence Team to be resourceful, flexible and innovative. Clearly, the Department and the Canadian Forces comprise a progressive institution.

The past decade has witnessed major shifts in global affairs – shifts having profound implications for security and defence. As well, technological advances have brought new opportunities for direct application to military affairs, including the support provided to operations. Concurrently, public scrutiny of the operations and intentions of large organizations, and the officers who lead them, has propelled demands for transparency and accountability. It has also heightened expectations of ethical behaviour on the part of those in charge.

Innovation and the dedication of the Defence Team have been hallmarks within this institution. At the same time, uniquely challenging demands come with the complexity and magnitude of defence operations, systems and resources that must be commanded and managed. Adding to this is that the Department and the Forces are moving from transition to transformation, both of which heighten opportunity and risk.

#### **Leadership in management innovation**

An important backdrop for this *Perspective* document is that the Department and the Canadian Forces have consistently sought to demonstrate leadership in the sphere of modern management. In the 1990's, this included a strong commitment to re-engineering, downsizing and rightsizing. Seeking to increase its tooth-to-tail ratio, DND embraced the principle of streamlining, eliminating bureaucracy and pursuing new delivery solutions. An ongoing objective is to ensure that "bureaucracy" is minimized while those institutional/management processes and structures key to achieving the Defence mission are honed and bolstered.

Much enthusiasm was rooted in expectations of new technological enablers and attendant control philosophies. It was anticipated that new systems could directly assist in management, measurement and monitoring without increased staff (indeed with the promise of reductions). However, it became evident that the uptake of technology would be neither immediate nor risk-free. Hampered by the pace of incremental, and sometimes disjointed steps, the move to technology-enabled management practices is incomplete. Government has similarly struggled with introducing innovation into contracting and risk management strategies. The reality is that downsizing and initiatives to introduce greater flexibility in service delivery have been accompanied by significant risks – risks that are largely attributable to an extended period of transition toward technology-enabled modern management practices and techniques.

Many positive initiatives are underway within DND. The Department has built a sound business-planning framework and has made significant strides in the advancement of performance management. A harmonization initiative is intended to achieve the effective integration of planning and management systems, and should strengthen intelligent risk-taking. At the same time, however, the Department has had to cope with, and learn from,



serious control breakdowns that had their centre in the management of contracting. A strong ethical climate exists within the Department, but the integrity of our people is no overall guarantee of the protection of public resources. More difficulties will no doubt come to light as the Chief Review Services (CRS) casts a broad detection net, and as the Assistant Deputy Minister (Finance and Corporate Services), (ADM(Fin CS)) pursues a solid *back-to-basics* financial control regime. It is widely recognized that improvements in comptrollership and oversight are a priority; the current challenge is to strengthen controls, mainly through technology-enabled solutions, while maintaining a balanced, healthy management environment.

As a final contextual point, despite recent control issues, it cannot be concluded that the Department is anything other than a leader in modern management. Executives drawn from other federal departments have invariably remarked upon the high calibre of our management systems – the magnitude of Defence procurements, inventories and annual expenditures demands no less.

### **A Perspective on Risk and Opportunity**

As independent professionals within the Review Services Branch, we are given the daily opportunity to review and assess risk, control and accountability across a broad spectrum of activity. The vantage point we enjoy springs from the unique mandate of CRS, embracing defence ethics, internal audit, evaluation, special examinations, conflict of interest and internal disclosure. Indeed, our reports contribute to the detailed corporate memory of risk-management issues and achievements. In that memory, certain themes emerge and re-emerge, certain issues loom large and certain opportunities stand out. This document is an overview of those themes, issues and opportunities. In it, we draw from our assessment of the state of the following:

- an ethical climate and framework,
- integrated risk management,
- information for decision-making and accountability, and
- internal control (stewardship).

We then link a number of the issues to their implications for effective support to Canadian Forces readiness and operations – the institution's *raison d'être*. Our purpose is to assist the Department and the Canadian Forces in continuing endeavours toward applying finite resources to opportunities with the greatest possible impact. There are concerns highlighted which warrant resolution in the context of transformation. The paper therefore culminates in a listing of key recommendations, some of which we believe are directly pertinent to the Chief of the Defence Staff's vision for the Canadian Forces.

J. Van Adel  
Chief Review Services



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## SECTION 1 – BACKGROUND TO THE ASSESSMENTS

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Canadians rightly expect that public funds will be spent wisely. The Treasury Board Secretariat (TBS) and other federal institutions—including the Department of National Defence (DND) and the Canadian Forces (CF)—have fully accepted the responsibility to continuously improve performance so that the funds they spend on behalf of Canadians result in good value.

In 2000, TBS published *RESULTS FOR CANADIANS*, setting out both a framework for management in the Government of Canada and an agenda for change in the way departments and agencies deliver their programs and services. In 2001, *RESULTS FOR CANADIANS* was followed by a *MODERN COMPTROLLERSHIP INITIATIVE* and an *INTEGRATED RISK MANAGEMENT FRAMEWORK*. In 2003, TBS promulgated *THE MANAGEMENT ACCOUNTABILITY FRAMEWORK*. DND conducted capacity checks for both Modern Comptrollership (1999) and, subsequently, Human Resources. These were followed by other projects including the development of a *MODERN MANAGEMENT STRATEGY* and a *PERFORMANCE MANAGEMENT FRAMEWORK*.

As DND implements and refines these and other initiatives, it will be helpful to step back and assess progress. The Chief Review Services (CRS) Branch is specifically mandated to provide independent and objective advice to the Deputy Minister (DM) and the Chief of the Defence Staff (CDS). A fundamental role of CRS is to provide assurances as well as assessments and new perspectives on issues and developments concerning the delivery of the Defence Services Program.

This *Perspective* document is a first. It will continue to evolve through successive iterations over the coming years. Through the results of internal audit, the document will provide assurances regarding the organization's management systems and practices. These assurances, in concert with the conclusions of evaluation work, will explore the implications for CF operations. An objective will be to address the elements of *THE MANAGEMENT ACCOUNTABILITY FRAMEWORK* defined by the TBS.

### 2004 CRS Assessments

The current assessments have their principal grounding in CRS work completed to the end of fiscal year 2004/05. To the extent practicable, the assessments are tied to the DND/CF Performance Management Framework, Modern Comptrollership/Management and to the TBS Management Accountability Framework. Figure 1, on the next page, shows the key areas that are rated and explored in greater detail in the following pages. These include:

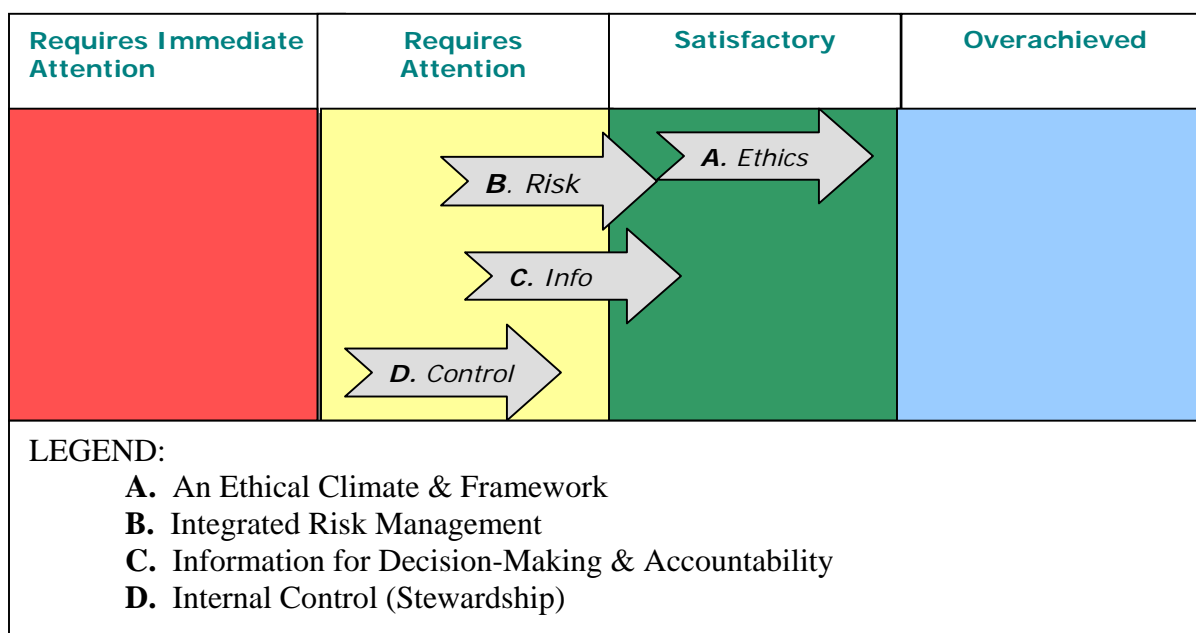
- A. an ethical climate and framework;
- B. integrated risk management;
- C. information for decision-making and accountability; and
- D. internal control (stewardship).

Observations are then made on the implications for results—namely success in CF operations. Recommendations are included within each section of this document. Section 7 presents selected recommendations, certain of which are directly relevant to supporting implementation of the Chief of the Defence Staff's vision for the Canadian Forces. A summary listing of these *Top Ten* recommendations is provided at the end of this current section.



Figure 1 below presents the CRS 2004 ratings in four key areas. Ratings for each area are explored and discussed in the report sections which follow.

**Figure 1 - CRS Rating of Key Assessment Areas (2004)**



The rating scale and colour palate for Figure 1 are similar to those used for the Defence Performance Management Framework. The ratings and scale substantially reflect the high expectations that the Defence organization has established for itself. The assessments are based on a synthesis of conclusions presented in individual CRS reports. The ratings have a conservative bias in that we have yet to perform audit and evaluation work to substantiate the successful implementation of recent management improvement initiatives, many of which have been influenced by CRS recommendations. Particular strides have been made in the areas of Internal Control and Information Management. Given expected improvements in each of the areas assessed, we anticipate that our ratings will improve in coming years – the arrows in Figure 1 reflect this.

The individual ratings discussed in the sections that follow are also situated relative to those assigned by the 1999 COMPTROLLERSHIP CAPACITY CHECK.

### Ten Recommendations:

Recommendations appear at the end of each Assessment. A selection of ten of the more important recommendations appears at Section 7 of this paper. The recommendations deal with the following:

1. **The Role of Functional Authorities;**
2. **Contracting Strategies, Terms & Monitoring;**
3. **Ethics in Contracting;**
4. **Exploiting Risk Management;**
5. **Technology-Enabled Internal Controls;**
6. **Governance for Information Management/Technology;**
7. **Scales, Standards, Tables & Analysis To Support Mission Planning;**
8. **National Procurement & Inventory Management;**
9. **Readiness Monitoring; and**
10. **Attention to Audit & Evaluation Recommendations.**





## SECTION 2 – ASSESSMENT: ETHICAL CLIMATE & FRAMEWORK

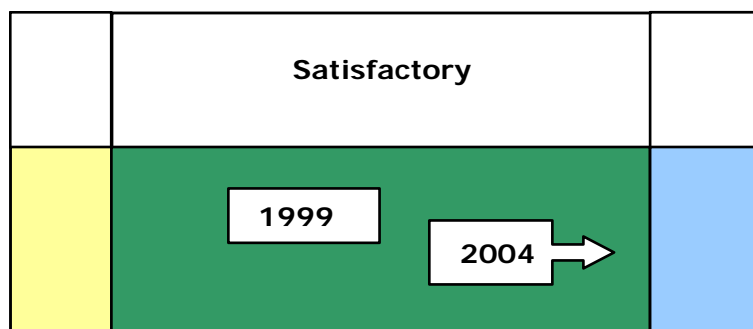
The Defence Ethics Program has been acknowledged for its longstanding leadership within the Public Service. One of the earliest of all Canadian federal ethics programs, it has been cited by the Auditor General as *'having key foundations in place'*.

Increasingly, Ethics is seen as an important underpinning for all management decision-making and actions. This reality was recognized in the new VALUES AND ETHICS CODE FOR THE PUBLIC SERVICE in 2004. The Code fits nicely with precepts that were already reflected in the Defence Ethics Program, including the existing Statement of Defence Ethics. It also affirmed the values explored in DUTY WITH HONOUR—THE PROFESSION OF ARMS IN CANADA, itself a watershed document.

The most recent DND/CF-wide Ethics Survey (2003) indicates pronounced progress in terms of the ethical climate within the defence organization. However, increased ethical awareness is attended by higher expectations on the part of defence personnel. People are less inclined to view ethical decisions as straightforward or black-and-white. At the same time, as the organization actively and appropriately encourages feedback, it will inevitably encounter strong views which will require analysis and attention.

### CRS Rating

We rate the Ethical Climate and Framework within DND as Satisfactory. Our assessment indicates improvement since 1999. Our rating is supported by the results of the 2003 Defence Ethics Survey and the cautious endorsement by the Auditor General, who cites Defence as one of only two departments with an ethics program worthy of emulation by other government organizations. Of note, the Defence Ethics Framework has been progressively strengthened, with more vigorous activities undertaken by Level One organizations. The value of these efforts has been measured and reinforced by a second DND/CF-wide ethics survey, performed by CRS in partnership with Director Human Resource Research and Evaluation (DHRRE) in 2003 (the first was conducted in 1999),



### Issues Overview and Survey Results

Are Ethics Enough? The 2003 Defence Ethics Survey indicates clear improvement in the organizational ethical climate since 1999. At the same time, in view of worrisome issues pertaining to contracting, questions inevitably arise regarding the sufficiency of the Defence Ethics Program.

*A strong ethical climate is a necessary, but not sufficient condition...*

It is clear that a mature ethical climate is necessary to discourage wrongdoing. Equally clear is that it is no guarantee against misconduct. A strong ethical climate is a necessary, but not sufficient condition in this respect. The risk of wrongdoing is a function of the complex interrelation of people's personal ethics, their sense of well-being, the pressures under which they find themselves, the controls in place to deter them from acting unethically, and the corresponding opportunities for misconduct which they encounter. Even as further refinements are made

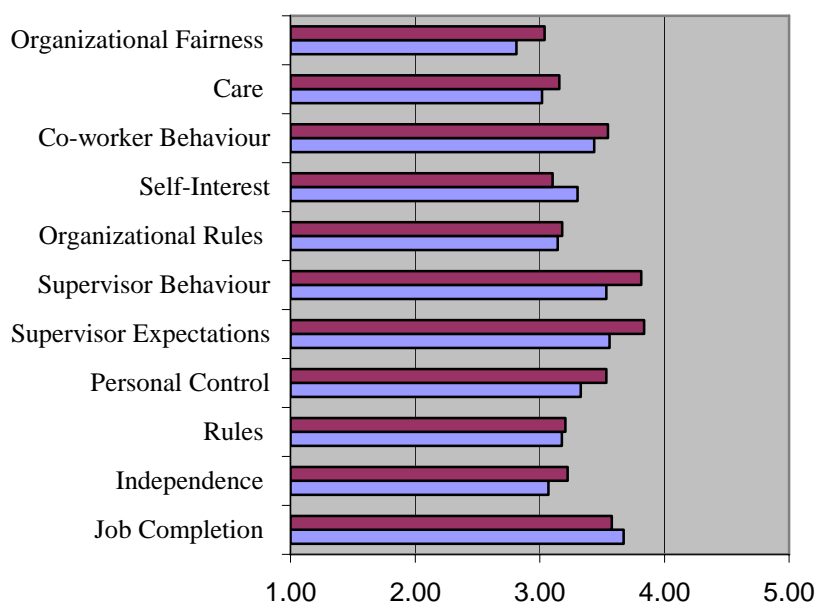


to build an ethical climate within DND, improvements must be made to aspects such as basic controls, and an effective internal disclosure mechanism.

Summary Insights from DND/CF Ethics Surveys. We know from the 2003 survey that defence personnel have increasingly higher ethical expectations of their colleagues and superiors, while superiors declare a high level of trust in their subordinates. Both CF members and DND employees have greater awareness and understanding of the Statement of Defence Ethics than in the past. In fact, CRS focus sessions involving anonymous feedback from over 85 diverse groups of defence personnel showed a 24% increase from 1998 to 2002 regarding the reported view that ethics and values have been clearly articulated within the Defence organization.

The findings of the Public Service Employee Survey are consistent with this trend. More than 80 percent of responding DND civilian employees know where to go for help with ethical dilemmas, a higher percentage than for the Public Service overall. Figure 2, excerpted from the most recent Defence Ethics Survey Report, indicates improvement across all key indicators for individual values and the organizational ethical climate:

**Figure 2 - Organizational Ethical Climate for 1999 and 2003**



A key finding of the 2003 Ethics Survey is that while respondents felt that co-workers should practice ethical values to a greater extent, they also perceived that these same co-workers were already demonstrating a high level of ethical behaviour.

A number of areas requiring additional analysis and attention were also identified. Chief among them were the apparent gaps between ethical expectations (*what should be*) held by respondents and their perceptions of the ethical reality (*what is*). Organizational Fairness, Care of Personnel and Co-worker Behaviour showed the most significant gaps between the perceptions of reality and the way people felt things should be.

Additionally, some of the open-ended survey questions indicated disquieting views and perceptions on the part of respondents. "Fair and equitable treatment of personnel" was the most frequently cited issue, with people perceiving differential treatment based on rank,



military or civilian status, language, race and gender. Dialogue and analysis are warranted in these areas. As noted in the Ethics Survey results, *"when individuals see organizations and procedures as being fair, they are more likely to report violations of accepted standards. Conversely, when individuals see their situation as unfair, they are more likely to want to take retribution against the organization."*

Also noteworthy were perceptions that some contractors have been inappropriately favoured. This warrants early attention, for as prior CRS audit work has confirmed, such perceptions can undermine the collective effort to hold contractors accountable; subordinates take their cues from their leaders' visible commitment to integrity in contracting.

### Recommendations

Key areas warranting attention by the Defence Ethics Program are as follows:

- CRS to re-orient the Defence Ethics Program to strengthen the functional role, providing additional practical **G**uidance, **E**nablers/tools and **M**onitoring (GEM).
- CRS to develop an approach to the completion of periodic *Ethical Risk Assessments*. The first step will be a sound theoretical framework for use by Level One organizations.
- CRS to reinvigorate a Fraud Risk Management Strategy, including awareness training for the Defence Team.
- CRS to perform an evaluation of the Defence Ethics Program to identify worthwhile enhancements.



## SECTION 3 – ASSESSMENT: INTEGRATED RISK MANAGEMENT

*...risk management emphasizes flexible, responsible – but certainly not error-free management.*

CRS does not subscribe to a narrow or prescriptive approach to risk management. Instead, we view risk management as an assist to decision-making, as well as to the design of effective delegation and timely

management interventions. Integrated risk management emphasizes flexible, responsible—but certainly not error-free—management. Further, it guides the design of cost-effective, purposeful controls. The goal is to achieve intelligent risk taking.

In 2000, CRS identified key building blocks that positioned the DND/CF to capitalize on risk management. We also worked with the Deputy Chief of the Defence Staff (DCDS) to demonstrate how some of the accepted techniques can be helpful in supporting effective planning for military operations.

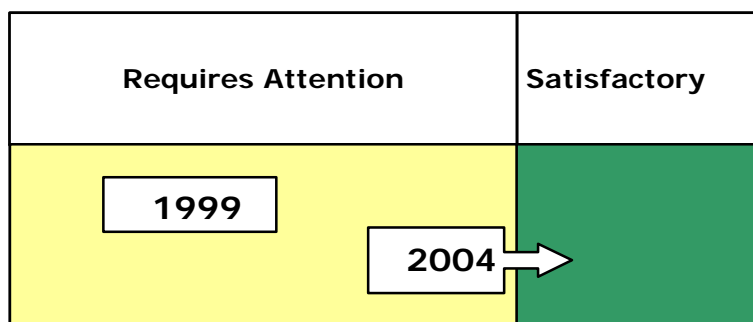
It is apparent that continued strengthening of DND business planning processes and the advancement of performance management provide a solid foundation on which to build and advance integrated risk management. A tenet of risk management is to look for the maximum intersects between capability options and potential futures (opportunities), so defence planning scenarios and capability-based planning are also directly pertinent.

As reported in a 2004 CRS BASELINE STUDY: INTEGRATED RISK MANAGEMENT IN THE DND/CF, exemplary risk-management strategies are practiced in selected areas of DND and the CF (such as flight safety). At the more corporate level, however, risk management generally remains at the early stages of development.

The Vice Chief of the Defence Staff has recently accepted the role as champion for risk management within the Defence organization. We anticipate improvements will be forthcoming. We are also aware that the Harmonization Initiative includes attention to risk management.

### CRS Rating

Based largely on the results of the 2004 CRS Baseline Study, we have rated the current state of integrated risk management within the DND/CF as being in the early stages of development, and therefore requiring attention. For the purpose of comparison, the assessment given as part of the 1999 Modern Comptrollership Capacity Check is plotted against the 2004 result. This assessment is supported by that given in the 2004 CRS Baseline Study.



### Issues Overview

Risk management is one of the pillars of Modern Comptrollership, and is defined as such in the TBS MANAGEMENT ACCOUNTABILITY FRAMEWORK. Accordingly, it received attention from CRS in both the 2004 BASELINE STUDY OF INTEGRATED RISK MANAGEMENT WITHIN THE DND/CF and the April 2000 SURVEY OF RISK MANAGEMENT CONCEPTS – the latter was prepared by CRS at the direction of the DM. These reviews identified some specific areas within the DND/CF that

demonstrate relatively sophisticated risk management. Three examples are Flight Safety, the Departmental Legal Risk Management Committee, and the integrated risk-management framework within the DCDS organization.

Notwithstanding these laudable pockets of better practice, the 2004 Baseline Study made observations that suggested a need for considerable improvement. The Study concluded that, overall, risk management within the DND/CF is largely reactive. More proactive risk management is rare; most often, systematic risk management is instituted only once an issue has surfaced. Understandably, there is some resistance to systematizing or standardizing aspects of risk management – the view correctly being that it is performed intuitively in day-to-day activities. With this in mind, we offer that among the practical advantages of greater systematizing of risk management are:

- improved decision-making and implementation of direction as key assumptions, quantitative parameters, caveats and measures of achievement are made more explicit and analyzed;
- better business planning with resources allocated based on projected benefits/value, costs and risks;
- improved design of authority delegations, with more effective monitoring, oversight, early warning and timely management intervention;
- more focused discussion of the significance and acceptability of identified gaps between performance measures and targets; and
- improved balance between flexibility and control at all levels.

The Risk Culture. There are a number of cultural barriers and assumptions that mitigate against the adoption of risk management as a standard management practice. Among these, is a prevailing “can do” culture within the defence organization that can encourage understatement of risk and even foster reluctance to communicate adverse events (actual or potential) to senior management in a timely manner. A fairly pervasive assumption is that risk should *not* be brought to the attention of senior management unless a solution has been found. CRS reviews of capital acquisitions have often encountered the downplaying of risks. A routine observation has been that risks associated with major acquisitions are understated. Two excerpts from recent CRS reports are illustrative:

*“This Project was given an assessment of Low Risk. Intuitively, challenges in rebuilding a 30-year old vehicle into nine variants, including cutting and stretching the vehicle, would seem relatively formidable and this has proven to be the case. Contracted studies characterized the risk as Medium to High.”*

CRS QUICK-TIME REVIEW OF AN EQUIPMENT LIFE EXTENSION, 2003

*“We have concluded that risks associated with this...procurement have been underestimated. Experience has shown that the procurement of a small production run of complex naval vessels will, in early days, involve technical difficulties and lessons learned; this is not an unusual occurrence.”*

REVIEW OF AN EQUIPMENT ACQUISITION, 2003

Of equal concern is that we have observed major projects, particularly new information management systems, which have appropriately assessed risks at the outset, but have then failed to monitor and maintain risk plans. One such major system acquisition was



abandoned in the 1990s after a significant expenditure of funds. More recently, we expressed concern that the acquisition of another important management information system was not taking advantage of these earlier lessons learned.

Risk is considered an essential element of strategic planning, and related assessments are an integral part of the Level One business planning process. Yet these Plans generally contain only a high-level analysis of risk, with the discussion focusing primarily on funding issues. Opportunities exist to achieve a more consistent view of the categories and language used to present risks.

Finally, CRS has proposed many risk-based recommendations for improvement in physical, personnel and information security, as well as workplace safety.

### Recommendations

Key areas warranting attention include the following:

- Having accepted the role as the champion for risk management, the VCDS is positioned to champion a risk-managed culture. Strategic Planning sets the stage for advancing Integrated Risk Management. The Harmonization Initiative—which will better integrate planning and management practices within the DND/CF—can do much to situate and promote Integrated Risk Management.
- Functional Authorities should ensure that risk management is used as the basis for the design and periodic review of delegations of authority and related monitoring/oversight.
- Business Cases and applicable authorities should be explicit as to the financial, technical and operational parameters within which individual proposals, decisions and approvals remain valid. These should be accompanied by sensitivity analyses and targeted monitoring. Specific high-risk/opportunity periods/events in the life-cycle of individual projects and initiatives should be identified at the time of approval to facilitate timely oversight.

### Risk & Purposeful Control

Difficulties which the Department has experienced with respect to internal control are reflective of the risks presented in the CRS view of the DND/CF Risk Landscape presented at Annex A, especially those pertaining to Contracting, Financial and IM/IT Management.

Our recent audit recommendations have stressed the importance of information to facilitate a corporate, vice exclusively transactional view of risks. A risk-based approach will assist the design of the delegation of authorities, monitoring and oversight. This has been illustrated through a spectrum of CRS work, ranging from audits of contracting and financial management, through to comment on the effective functioning of Senior Review Boards (SRBs). In this latter case, CRS recommended that the SRB meetings be better timed to focus on pre-defined risk points during the life of an approved project.



## SECTION 4 – ASSESSMENT: INFORMATION FOR DECISION-MAKING & ACCOUNTABILITY

The Information Management (IM) Group is making strides to promote and bring about more strategic views of Information Management & Technology (IM/IT) investments, and has emphasized the requirement to integrate Enterprise Management Systems. Under the direction of the current Assistant Deputy Minister (Information Management) (ADM(IM)), the Group has extended the definition of an enterprise architecture and standards to link key information systems to the objectives of the defence organization. Business analysts for several Enterprise Management Systems have also been centralized within the IM Group. Further, the ADM has moved resolutely to engage and communicate with colleagues.

Notwithstanding the considerable progress being made, a recent study requested by the DM raised a number of concerns regarding IM/IT governance, particularly at the strategic level. Part of the concern was that while governance structures were in place, they were not necessarily focused at the right level, nor were they optimally engaged. The study proposed that the DND/CF should ultimately consider designating the ADM(IM) as the Strategic Information Officer, and should further designate a Chief Technology Officer to ensure effective day-to-day management of the IM/IT asset portfolio.

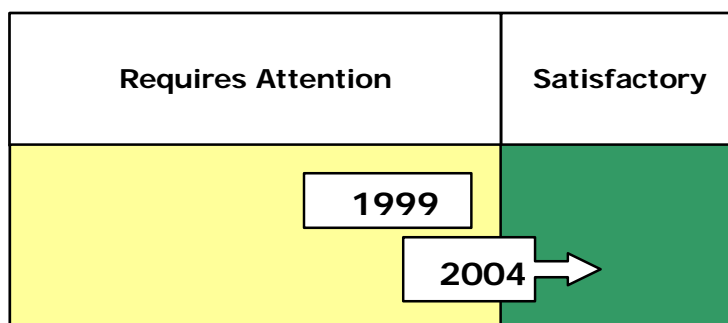
Challenges also remain in terms of working-level confidence in the principal information technologies for key support functions – Human Resources, Materiel and Finance. Local managers who have not yet appreciated (or perhaps even experienced) the benefits of Enterprise-Wide Systems, too often maintain duplicative systems and off-line records.

The Office of the Auditor General (OAG) has recently reported on the requirement for greater specificity in CF Plans for C<sup>4</sup>ISR – Command & Control, Computing, Communications, Information, Surveillance, and Reconnaissance. In 2002, Chief Review Services cited the requirement for the definition of an over-arching joint doctrine – the lack of such doctrine posed an obstacle to the successful implementation of the CF Command System. Regarding C<sup>4</sup>ISR, the AG has also stressed the importance of a published Enterprise Architecture, as well as improved governance.

Finally, a recent evaluation has recommended improvements to CF readiness monitoring.

### CRS Rating

The adjacent figure shows the overall 2004 CRS assessment of information for decision-making, and compares the assessment to one conducted as part of the 1999 COMPTROLLERSHIP CAPACITY CHECK. The ranking acknowledges some improvement, although many actions to facilitate further improvements are now underway. Concrete results will take time to achieve. We expect to significantly improve this rating in the next cycle of our *Perspective* reporting and once we have been advised of actions recently taken, completed or planned.



**Note:** Since the time of completion of this document, ADM(IM) has provided us an update on initiatives taken within that Group.



## Issues Overview

The IM Group has adopted a renewed, strategic focus that will facilitate the publication of an Enterprise Architecture linking information management to the business/missions of the institution. We appreciate that, in the past, there has been considerable vertical and functional resistance to the Department's Enterprise Systems, or to integration thereof, and that, until recently, integration initiatives have been largely reactive. Improved coordination and engagement across the institution is an imperative.

CRS assessments of the implementation of PeopleSoft, MASIS and the CF Health Information System have all commented on unanticipated complexity and delays. A major audit of the management and control of devolved resources (i.e. Local Funds) also found that resource managers lacked confidence in FMAS and, tellingly, did not feel altogether accountable for their role in financial management.

Responsible risk taking is made difficult when information is inadequate or perceived to be so. CRS work has highlighted management difficulties attributable to a lack of relevant or accurate information in areas such as:

- National Procurement – automated re-order prompts for major volumes of spare parts – this risks adding to surplus inventories as purchases may focus on what is available as opposed to what is needed;
- Contracting - ensuring a database of active contracts, linking payments to contracts, integrating pertinent financial and non-financial information, and ensuring information availability to all those managing contracts;
- Human Resources - tracking international deployments of CF personnel (note: this was promptly addressed);
- IM/IT assets – inventory of hardware and software;
- Capital Projects - linking milestones, costs, and contracting information; and
- Travel - purpose, patterns and cost reasonability.

Integration of Financial Information & Non-Financial Information. ADM(Fin CS) has spear-headed the implementation of accrual accounting as mandated by Government. Particularly impressive is high level of acceptance on the part of senior leaders regarding the importance of working toward audited accrual-based financial statements. ADM(Fin CS) has convincingly illustrated the concrete benefits in terms of improved asset visibility, including consistent assumptions about depreciation and economic life.

The government financial community has been tasked with the accrual accounting component of the Financial Information Strategy (FIS) at the same time as being required to ensure appropriate attention to all other aspects of financial management. While the Fin CS Group continues to deliver on the full spectrum of financial services and demands, other groups in the defence organization may lack the necessary depth of experience and expertise (i.e. in accrual accounting). Notwithstanding a recent name change, the Integrated Financial Management System (formerly known as FMAS) remains predominantly a general ledger system, which captures and reports on financial transactions, yet is still undeveloped as a management information/reporting and control system. As such, it has not yet featured front-end learning to generate exception reports on transactions, nor does it feature integrated financial and non-financial information. The Fin CS Group, however, is committed to generating such information at the strategic level in the near term.





At the more micro level, there are issues around the capture and reporting of information to support those charged with making day-to-day decisions at the transactional level, as well as those who should monitor this activity. CRS has frequently noted the lack of information necessary to risk manage the cumulative implications of incremental decisions and transactions. This has been particularly so regarding contracting. The current ADM(Fin CS) has required that commitments be established for contracts, addressing an audit observation made first in 1995 and repeated recently:

*...managers do not have appropriate information to anticipate emerging risks with respect to contracts. There are poor linkages between contracts and corresponding expenditures in the Department's finance system [the Financial Management and Accounting System (FMAS)]. We observed significant payments to vendors without matching commitments in FMAS.*

CRS PRELIMINARY RISK ANALYSIS OF CONTRACTS, 2004.

We note also that little non-financial information on contracting is captured at present. As such, the defence team has had to rely on input from Public Works and Government Services Canada (PWGSC), even though the specific applicability to DND of the general information coming from PWGSC has not been assured.

Our recent audit of Travel and Hospitality has also highlighted the need for information to support the analysis of trends and costs. In this case, DND-specific information, rather than government-wide averages, could be used in reasonability checks when budgeting, and as a check on claims submitted after the fact. Such information is not currently collected, even though the capability to do so exists.

Materiel Reprovisioning. Our 2000 AUDIT OF NATIONAL PROCUREMENT—MATERIEL REPROVISIONING reported that information necessary to ensure that National Procurement resources were devoted to highest and best use was simply not available. Stock valued at over \$1B did not include automated re-order prompts. As such, we estimated that improved inventory management could deliver savings in excess of \$90M annually. We expressed concern that inventories be better risk managed to ensure that, to the extent practicable, stock-outs are concentrated in those areas of lesser operational criticality. Action plans to address these concerns have been continually delayed in implementation, in large measure reflecting resource limitations within the Materiel Group—a Group which downsized by 45% in the 1990s.

Parallel Record Keeping. A 2003 CRS REVIEW OF THE IMPLEMENTATION OF THE HUMAN RESOURCE MANAGEMENT SYSTEM provided the following insight:

*"The overall perception from both military and civilian personnel is that the quality of the data in the HRMS is gradually improving, but significant further effort is/will be required to reach an acceptable level. Many interviewees said that they were unable to trust the data in the system and therefore, maintained parallel records and systems."*

CRS REVIEW OF THE IMPLEMENTATION OF THE HUMAN RESOURCE MANAGEMENT SYSTEM, 2003.

The CRS AUDIT OF THE MANAGEMENT OF LOCAL FUNDS noted similar perceptions respecting FMAS. Personnel at CF Bases expressed a lack of confidence in the System and, as a result, continued to maintain parallel records on PC-based spreadsheets. They also perceived that there was insufficient monitoring and correspondingly low expectation of accountability for financial transactions and decisions taken.



Duplication of effort regarding management information is a recurring theme. CRS is currently completing a report on the Materiel Acquisition Support Information System (MASIS). The draft report explores concern that expected users of major information systems for which implementation has been delayed feel compelled to develop their own ad hoc information systems. Of note, while MASIS modules have not been fully accepted by the user community, the Department has decided that all contracting transactions will be processed on MASIS rather than FMAS. This will require a significant expansion of the number of MASIS users, as well as corresponding training.

Finally, we offer that even as management information is better collected and shared, information security will become a critical issue itself worthy of risk management. We expressed this view in our 2000 REVIEW OF INFORMATION SECURITY, and made specific recommendations on necessary improvements. We are currently completing a review of the management of PUBLIC KEY INFRASTRUCTURE, another cornerstone of information security, and will recommend considerable improvements.

### **Recommendations**

Despite known resource challenges, there are many steps that must be taken to mitigate risk in the areas of Information for Decision-Making & Accountability, including:

- inclusion of IM/IT initiatives in the Strategic Capability Investment Plan;
- publication of an Enterprise Architecture and standards;
- demonstrated alignment between IM/IT Strategy and DND/CF Strategy;
- improved engagement of Group Chief Information Officers in the governance process;
- alignment of IT Service Delivery according to industry standard components;
- a program of initiatives to better manage IM/IT Assets;
- consideration to designating ADM(IM) as the Strategic Information Officer;
- designating a Chief Technical Officer; and
- reporting on the status of actions to improve Information Security.



## SECTION 5 – ASSESSMENT: INTERNAL CONTROL (STEWARDSHIP)

The current ADM (Finance & Corporate Services) joined the Department with a mandate to revitalize Modern Comptrollership within DND, and shortly thereafter promulgated an aggressive action plan premised on “*back-to-basics, value for money, and ethics*”. Much has been accomplished, and CRS supports the Action Plan, particularly to the extent that it continues progress towards technology-enabled controls. In fact, we consider such movement as imperative. A number of key initiatives are listed at page 17 of this document. This section and our assessment deal principally with fundamental financial controls associated with contracting and the payment of supplier invoices.

CRS assurance work indicates that the Department has made progress in the management of devolved funds; that is, the \$1.2B in local annual operating budgets. However, more must be done to consolidate the gains of the past several years and to improve the productivity and reach of what is often scarce financial expertise. Ironically, while needed improvements were being made at the local level, a deterioration had occurred relative to the controls within the more immediate sphere of the Fin CS Group – there were insufficient resources devoted to this function. Payment controls and monitoring were less than effective within NDHQ, at least insofar as operating and maintenance expenditures. Longstanding audit recommendations are now receiving much needed attention as it has become abundantly clear that the attendant risks are untenable.

### CRS Rating

A number of difficulties which came to light during 2003/04 sparked a call to action that has brought many positive changes. However, we cannot yet provide assurance and must post a conservative rating of internal control until we have had an opportunity to develop substantiated assessments. More problems will undoubtedly surface as internal audit casts a broad net and management bolsters control.

Requires Immediate Attention	Requires Attention
	<div>1999</div> <div>2004 →</div>

### There Are Promising Indications

On the positive side, and despite the preliminary nature of the findings, our recent audit work on financial controls within NDHQ is showing that the improvements brought by ADM(Fin CS) are having a very positive effect. We are observing a distinct improvement trend in the effectiveness of financial controls.

### Issues Overview and Lessons Learned

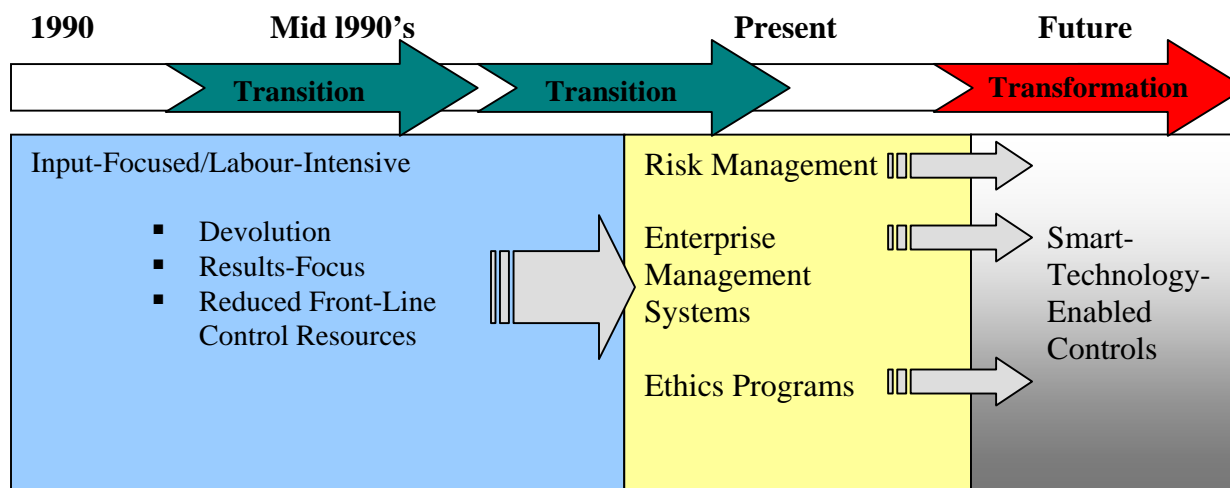
In 2001, CRS led and co-authored a TBS-sponsored study entitled INTERNAL AUDIT PLANNING PERSPECTIVES: RISKS FACING THE DELIVERY OF RESULTS FOR CANADIANS. In that document, CRS stated the following:

*“Risks arise in seeking to devolve decision-making while promoting a focus on results... there must be corporate visibility of, and guidance to, the conduct of public business at all levels within the public service. Guidance, enablers and monitoring must be in place. In addition, delivery systems will typically have fewer resources. Accordingly, the timely and effective implementation of new control philosophies, as reflected in modern comptrollership, will be critical.”*



*Smart controls must be designed to exploit the capabilities of enterprise management systems. For example, new interfaces between people and IT can achieve more effective controls than those that were more resource intensive and existed previously. IT systems and smart edit functions which learn with each transaction processed, can flag high-risk/abnormal transactions and contribute to effective quality control. The danger is that during the period of transition, longstanding controls may be set aside before new controls are in place. Enterprise management systems have much capability, but this sophistication is accompanied by complexity and associated risks."*

**Figure 3 - Evolution of Controls**



Through its analysis, the government-wide study noted a convergence of key risks facing public service organizations in many western democracies. Of the eleven risks highlighted in the report, five have figured prominently in recent difficulties experienced by DND:

- contracting strategies & management,
- financial management,
- investment analysis (business cases, particularly IT),
- risk management, and
- devolution & smart controls.

The study report set out a road map for audit activity and was intended to be updated annually. Moreover, the report was influenced by, and has since guided DND Internal Audit planning and recommendations. It provides a helpful frame of reference for analyzing contracting difficulties which have occurred within the Department.

#### **Lessons Learned From a Control Breakdown**

Through the joint efforts of auditors from the public and private sectors, it came to light in 2003/04 that DND had been affected by an allegedly criminal scheme which exploited weaknesses in financial and contracting controls, particularly regarding purchased services for the maintenance of computer hardware and software. Some of the key lessons from the difficulties which have occurred, are as follows:

- FUNCTIONAL MANAGERS & AUTHORITIES need to play a stronger role. They must better manage complexity, communicate straightforward guidance, design, recommend and communicate effective delegation of authorities, provide enablers - including training and tools, define reporting standards, monitor transacted business,

facilitate benchmarking across organizational units, and assess risks from a corporate-level view. Notwithstanding the gains achieved through devolution, the pendulum must be moderated – delivery mechanisms must be continuously evaluated for the benefits of additional devolution, but also coordination, consolidation and even centralization.

- DELEGATED AUTHORITIES must be designed/structured in consideration of risks and be periodically re-evaluated as monitoring improves the understanding of these risks.
- MANAGEMENT INFORMATION is key to learning, assessing risks at the corporate/strategic, operational and tactical levels, and to adapting guidance and delegated authorities.
- ENTERPRISE SYSTEMS must incorporate learning edits and reporting to build a view of business norms and to highlight outlying transactions and activity.
- INFORMATION must be automatically captured as a byproduct of transacting business, and not as a distinct/separate input activity.
- ENTERPRISE SYSTEMS should ultimately provide for end-to-end electronic ordering, procurement and payment; the System should automatically perform validation checks on electronic signatures and delegated authorities.
- CONTRACTING STRATEGIES AND TERMS should be better designed to anticipate supplier profit incentives, to provide for sharing in the benefits of cost reduction and to place greater onus on contractor reporting.
- MANAGERS should receive training in fraud awareness.
- SPECIALIZED OPERATIONS—particularly those staffed by highly-expert professionals—warrant particular attention relative to contracting and control.

#### **There is good news too.**

The control breakdown that occurred in 2003 cannot be generalized across the Department. In that case, there were specific circumstances marked by a lack of continuity of supervision and a complex scheme involving alleged criminality. In fact, the audit of the Management of Local Funds – amounting to over \$1 billion annually - concluded that the vast *majority of the transactions are processed appropriately*. As expected, locations in which comptrollers demonstrate a commitment to monitoring of activities and transactions are more effective in improving control and compliance.

#### **Lessons Learned From Other CRS Reports**

In 2002, CRS reported on a major audit of CONTRACTING FOR PROFESSIONAL AND TECHNICAL SERVICES. A key finding, reiterated from past reporting, centred on the:

*“...longstanding, and increasingly pressing, need for improved information so that the inherent risks in service contracting can be monitored and managed at the corporate level.”*

CRS AUDIT OF CONTRACTING FOR PROFESSIONAL & TECHNICAL SERVICES, 2002.



In looking at CONTRACTING FOR ADVERTISING AND ADVERTISING RELATED SERVICES (2003), it was found that, at that time, the Finance & Corporate Services Group had essentially discontinued its verification responsibilities prior to making payments to suppliers. When the processes were re-established, they were not effective.

Additional insights and observations have been gained through a major internal audit of the MANAGEMENT OF LOCAL FUNDS (2004), which encompasses annual expenditures of about \$1.2B.

- There was insufficient monitoring to allow effective risk management of business.
- Acquisition cards offer increased visibility of transactions, but the extent of use was uneven across locations. Benchmarking indicated that expanded use of acquisition cards, as well as implementation of more centralized invoice processing, could yield significant annual savings, while enhancing control.
- The Department needs to eliminate outdated systems such as manual specimen signature cards and pursue electronic signatures as well as automated verification of signatures and delegated authorities.
- The corporate finance function had not yet defined performance expectations or measurement to assess the functioning of the financial control system.

### The Control Environment

Consideration of the effectiveness of internal control also requires attention to the overall environment in which controls are active. Key factors in that environment are the views and attitudes of the people charged with complying with control procedures. For example, a common misconception holds that a “good deal” can be sufficient to ensure that the public interest has been served in contracting. CRS staff must frequently remind managers that value (and values) in the Public Service rightly embrace other considerations such as fairness and impartiality, real and perceived.

Another limited view is that getting the job done is paramount, even to the exclusion of basic compliance requirements. The 2001 CRS REVIEW OF THE MANAGEMENT OF OPERATING BUDGETS—THE IMPACT OF DEVOLUTION highlighted that staffs with operational responsibilities as primary duties believe that those should always take precedence over secondary functional responsibilities such as the management of finance, materiel and human resources. An excerpt from that report clarifies the problem:

“Discussion in focus groups and in interviews clearly indicated that when most individuals have to choose between primary and secondary duties, they usually elect the former, reflecting the operational primacy of their functions. Furthermore, they would likely carry out their secondary *duties* in a way that would best contribute to the successful completion of their primary duties, even if this means contravening policy and procedures on occasion.”

“There are few consequences... for those who may break the rules and guidelines. Meanwhile, it is clear that there can be no going back as far as a control framework is concerned, at least not all the way. The question now must be how to work smarter.”

CRS REVIEW OF THE MANAGEMENT OF OPERATING BUDGETS—  
THE IMPACT OF DEVOLUTION, 2001.

The 2004 report on the AUDIT OF THE MANAGEMENT OF LOCAL FUNDS also noted the concern of focus group participants who sometimes faced the dilemma of having to ensure compliance while responding to the request of a senior office to “make it happen”. Of greater concern,



however, is that participants also indicated that they did not feel that they were necessarily held accountable for the manner in which they conducted financial transactions.

"While certain respondents stated that adhering to rules, regulations and orders was of chief importance, a greater number stated that the most important ethical issue for them was adhering to rules and regulations while still acting ethically and/or getting the job done."

2003 DEFENCE ETHICS SURVEY REPORT, (reported 2004).

Other recent audit work has shown that specialized agencies, employing highly-expert professionals, are more vulnerable to the tendency to focus on results without necessarily appreciating the significance of management-oriented regulation and policy. Given these circumstances, monitoring by functional specialists at the corporate level is crucial to ensuring that an acceptable level of risk is maintained in relation to compliance with applicable legislation, regulation, policy and procedure.

### Key Improvements

*...there is an aggressive program of management improvement underway.*

While Internal Control (Stewardship) is the management accountability area having the lowest rating and requiring the most attention, there is an aggressive program of management improvement underway. With the difficulties detected in 2003/04, outstanding CRS recommendations received priority attention and were reinforced through real-time direction from the DM. The then newly-appointed ADM(Fin CS) embraced a mandate to revitalize Comptrollership. Key improvements since driven by the Fin CS Group, and others, have included:

- the formation of a Defence Contracting Oversight Committee, co-chaired by ADM(Fin CS) and ADM(Materiel);
- immediate curtailing of delegated authorities, followed by a risk-based revision of many delegated contracting authorities, as well as reinforcement of authorities for the initiation of expenditures;
- application of a web-based financial training and testing program to over 12,000 DND/CF personnel, successful exam results being a precondition to retention of delegated signing authority;
- creation of a monitoring cell within ADM(Fin CS) to perform review and quality assurance procedures relative to invoices forwarded for payment, with detailed reports provided to originating organizations critiquing invoice validation and certifications (S. 34 FAA);
- mandatory commitment control procedures facilitating the automated linkage between contracts and related payments;
- institution by ADM(Materiel) of a High-Risk Contract Framework based on a CRS model;
- publication by ADM(Mat) of a procurement administrative manual addressing end-to-end procurement including contracting;
- establishment of the National Procurement Oversight Committee; and





- preparation of an Integrated Management Action Plan indicating measures to strengthen the financial control framework and Comptrollership.

### The Continuing Hurdles

A significant hurdle in this program of improvement is the existence of Enterprise Systems having overlapping functionality. Though each system contains information useful to managers and specialists, the systems themselves are not easily integrated and may contain duplicate (sometimes inconsistent) information. Further, as MASIS emerges from its current strategic pause and is implemented, personnel will not all have equal access to this system, nor to the valuable contracting information it is to contain.

Consistent with the government's Financial Information Strategy, DND and other departments are steadfastly applying resources to implement accrual accounting and financial reporting. Together, these disciplines enable improved asset reporting, consistent views of the economic life of assets, and the improved visibility and management of inventories. However, as financial officers are stretched to perform their functions, the current concentration on accrual accounting can affect the attention to management accounting—the foundation for business-case development and investment analysis.

Audit work has also affirmed the importance of effective contracting strategies and terms. The criticality of these elements has been made clear in the area of IM/IT contracting where few incentives were in place to moderate costs and mark-ups associated with the use of subcontractors. A CRS-led study, employing an expert consulting firm, has also emphasized the importance of managing IM/IT in accordance with industry-accepted service components. This facilitates the application of industry best practices and metrics, including cost comparisons, competitive pricing and attendant controls. The contracting problems found in 2003 also pointed to certain issues of coordination between DND and Public Works & Government Services Canada (PWGSC). A pilot program whereby DND will perform its own contracting for certain large procurements offers promise in terms of resource savings and focused accountability.

### Recommendations

To ensure the steady improvement of the effectiveness of internal controls, a number of changes have been made and programs put in place. We recommend continued vigilance through such measures as:

- strengthened roles for functional managers and authorities (guidance, enablers & monitoring);
- continuous re-balancing of devolution (only to the level where critical expertise exists);
- faster transition to technology-enabled *Smart* controls (system interfaces, acquisition cards, learning front-end system edits and exception reporting; e-commerce strategy for end-to-end electronic procurement & payment);
- improved financial compliance and productivity, with serious consideration given to consolidating invoice processing into expert regional centers, or even a single bill-paying agency;
- monitoring of financial performance—including compliance—against defined performance standards;



- continued emphasis on accountability and control over expenditure initiation;
- annual risk-based review, revision and clarification of delegated authorities based on the results of monitoring and risk assessments;
- consistently improved and monitored contracting information;
- the design of improved contracting strategies and terms with assurances that subcontractor costs are held in check and that contracts provide for sharing in measures that keep costs in check;
- definition of a strategy for integrating financial and non-financial information;
- continued development of the capabilities of the FMAS;
- particular attention to Comptrollership within special operations/agencies;
- the mounting by CRS of an ethics campaign focused on the ABCs of the ethical contracting; and
- the spearheading by CRS of a concerted fraud-awareness campaign.



## SECTION 6 – IMPLICATIONS FOR CF OPERATIONS

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Certainly, good management practice is necessary to demonstrate compliance with policy, legislation and regulation. However, this is but the first test of sound resource management that we must demand of ourselves. The next test and ultimate challenge is that resources are effectively managed toward the successful achievement of the objectives and missions of the Department and the Canadian Forces.

This paper opened with comments on major shifts in global affairs, particularly marked by the events of September 2001, which brought a more focused understanding of the nature of changing threats to Canada and our allies. There has been a distinct move away from the Cold War scenario characterized by relative predictability and more lengthy pre-conflict lead times.

The 2004 CRS EVALUATION: PERSPECTIVES ON VANGUARD/MAIN CONTINGENCY FORCE (MCF) READINESS AND SUSTAINMENT observed that, largely under the US military transformation and war against terrorism, high readiness has become the new paradigm for western militaries:

All of our NATO/ABCA allies have chosen to increase the state of readiness of their respective military forces. As illustrated by the new NATO Response Force Concept, high readiness demands that military forces be combat ready and quickly deployable either to deter a potential crisis or be able to thwart it swiftly. High readiness also demands that forces be sustainable, and that interoperability with the US military can be an important advantage. Consequently, our allies have adopted some form of tiered readiness as their new force model, with units/formations placed at either reduced, normal or high readiness states.

CRS Evaluation: Perspectives on Vanguard/Main Contingency Force Readiness and Sustainment, 2004.

It was suggested that, because high readiness demands that military forces be combat ready and quickly deployable (to deter or thwart crises), most of Canada's allies have adopted tiered readiness as their new force model, with units and formations rotating through reduced, normal, and high-readiness states. Tiered readiness typically requires a well-trained, well-equipped expeditionary or vanguard force on standby. The evaluation did not give particular emphasis to joint/integrated operations, but, in our view, the recommendations are supportive of the CDS's vision for the Canadian Forces.

Among the key recommendations are those that focus on: the review and measurement of readiness; re-orientation of the National Procurement Program; improved definition of roles in support of readiness; improved tracking of personnel returning from deployments; adjustment of personnel policies affecting deployed members; and, development of a fuller understanding of the capabilities of the CF Medical Service support to readiness.

CRS Evaluation: Perspectives on Vanguard/Main Contingency Force Readiness and Sustainment, 2004.

Earlier mention was made of the Audit of NATIONAL PROCUREMENT: MATERIEL REPROVISIONING, which expressed concern that scarce procurement resources were not being consistently directed to highest and best use. Many of the weaknesses in automated support to managing this procurement persist. The evaluation has noted the additional complication that National Procurement supports both "operational" and "structural" readiness – it funds a great deal of quasi-capital expenditures.

The 2002 AUDIT OF MATERIEL SUPPORT TO DEPLOYED CF OPERATIONS further documented the impacts of shortages in inventories, but also the detrimental effects of equipment tables and scales, as well as materiel support standards, which were not tailored to specific missions and, particularly the associated air/sea lift capabilities. These circumstances translated into



stock-outs (in theatre and otherwise) as well as extended down-time for equipment. Similarly, the system for flagging priority demands for spare parts broke down, as all demands became top priorities. A recommendation was that realistic scales and standards be established, that a performance measurement system be put in place to track materiel service, and that a materiel/support risk analysis model be designed to provide for assessment of the cumulative implications of each new deployment.

The evaluation of Vanguard/MCF Readiness & Sustainment revisited, reinforced and extended many internal audit recommendations. It also described the issues in terms of their direct consequences for the readiness and sustainment of the Canadian Forces. A number of senior leaders have suggested that the evaluation report provided a good overall view of the state of the Canadian Forces. Certain of the key evaluation recommendations, along with an indication of the status (in brackets) of corresponding actions, are as follows:

- Readiness Monitoring: Develop readiness monitoring similar to the US Joint Quarterly Readiness Process (under consideration);
- Scales & Tables: Re-define “Days of Supply”, revise the scales of issue, and adopt standardized Tables of Organization and Equipment with Associated Task Force Movement Tables for high-readiness units and formations that will meet common allied and commercial loading and shipping criteria (underway);
- Air/Sea Lift: Put in place necessary arrangements for strategic lift corresponding to defined readiness timelines (underway);
- National Procurement Priority: Make the readiness and sustainment of high-readiness units/formations a first priority for National Procurement funding, including the re-generation of national operational and logistics stocks (under consideration);
- Materiel Accountability: Articulate ADM(Materiel)’s responsibility and accountability for CF readiness and sustainment (agreed). Develop a tracking system, compatible with US systems, to monitor equipment status, stock availability and movement through the supply chain (agreed, ongoing);
- Joint Support Group: Implement the Joint Support Group to deliver theatre activation, establish the theatre logistics base, support to reception, staging and onward integration/movement, including integration of medical support and theatre base closure (full capability 2015); and
- Personnel Tracking: Track both Regular Force and Reserve Personnel, who have been deployed on international operations (actioned).

To the extent that the DM and CDS consider the recommendations to be consistent with the new vision for the Canadian Forces, CRS will monitor the implementation of recommendations and action plans. Section 8 provides comments on the pace of progress in terms of all audit and evaluation recommendations, including those appearing above. In this respect, we anticipate that certain key recommendations may warrant additional consideration for their potential contribution to the new vision for the Canadian Forces – the above bullets regarding readiness monitoring and National Procurement priorities are cases in point. Similarly, action plans may be revisited to ensure timelines are consistent with current DND/CF priorities.



## SECTION 7 – TEN RECOMMENDATIONS

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The ten selected recommendations that follow address a synthesis of themes and issues developed through the work of the Chief Review Services Branch. The issues are complex because the DND and CF are complex; the issues are urgent because the organization is in a period of transition and transformation, typically the time when systems are most exposed to risk.

We propose and/or reiterate the following ten actions, which we are confident will support the process of transition by reinforcing our management systems.

1. **Functional Authorities** must explicitly define and maintain accountability frameworks to include: the provision of straight-forward **Guidance**; **Enablers** (delegation, standards, training & tools); and risk-based **Monitoring** systems (GEM). Improved Department-wide financial performance measurement is a priority, particularly to define and monitor standards for financial control. Functional Authorities must be responsible for continuous improvement programs, including the identification and promotion (e.g. through pilot projects) of opportunities for more effective delegation, devolution, coordination, integration, consolidation and/or other delivery strategies to achieve improved support to CF operations.
2. **Contracting** strategies, terms and monitoring must be improved. More emphasis is needed on anticipating supplier incentives, encouraging and sharing in cost-reduction initiatives, taking advantage of industry-based metrics and defining reporting requirements. (Penalties are not a substitute for well-designed incentives.) The Departmental Contracting Oversight Committee should prepare periodic reports to the DM on systemic improvements and priorities relative to the management of contracting across the Department.
3. **Ethical Contracting** must be the subject of a campaign to communicate and reinforce fundamentals. This should be accompanied by a re-invigorated fraud awareness program.
4. **Risk Management** should be better capitalized upon for its practical benefits – e.g. in terms of enhanced performance measurement, improved business cases, the design and ongoing assessment of devolution and delegated authorities as well as effective oversight and timely management intervention. A starting point is to develop a common language and taxonomy for discussing risk.
5. **Internal Controls** should be increasingly technology-enabled. Momentum toward the integration of Enterprise Systems and the transition to technology-enabled management controls must be accelerated. Systems should include end-to-end electronic transaction processing including learning front-end edits which perform validation of authorities as well as flagging outlying transactions and activities.
6. **Governance** mechanisms for Information Management/Technology must be improved with attention to the design of unique features at the strategic, operational and tactical levels. ADM (Information Management) should be designated as the Strategic Information Officer and a Chief Technical Officer be designated to ensure the effective day-to-day management of IM/Information Technology assets.



7. **Scales, Standards & Tables** must be defined/updated to facilitate mission planning. This will include Tables of Organization and Equipment with associated Task Force Movement Tables. Materiel service/performance standards, including “Days of Supply” must be sufficiently clear and monitored, to facilitate deployment planning, ongoing risk analysis, readiness monitoring and accountability for logistics support to operations.
8. **National Procurement** should have operational readiness as its first priority. Inventory Replenishment must also be assisted by item-based tracking of usage rates, particularly for operational stocks, and automated re-order prompts. A risk analysis capability should also be in place to assess the cumulative support implications of each successive operational deployment.
9. **Readiness Monitoring**, similar to the US Joint Quarterly Readiness Review Process, with a focus on near-term operational readiness should be adopted. This would add a necessary operational overtone to the DND/CF performance measurement framework. Measures should also help to make apparent the tradeoffs between operational (near-term) readiness and structural (longer-term) readiness.
10. **Monitoring of Approved Management Action Plans** relative to independent audits and evaluations should be improved to reinforce accountability for commitments to corrective action. CRS monitoring capabilities need to be improved, with firm action plans and milestones from level 1s being a prerequisite.



## SECTION 8 – ACTIONS TO IMPLEMENT CRS RECOMMENDATIONS

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The Audit & Evaluation Committee (AEC) is periodically informed that approved management action plans springing from key audit and evaluation recommendations have experienced milestone slippage.

We appreciate the reality of resource limitations and that managers must frequently juggle priorities as they apply insufficient resources to the many tasks at hand. Similarly, we are aware of situations in which resources are so severely constrained that it would take very high standards of management excellence to compensate.

In the context of resource limitations, the DND/CF management culture has sometimes tended to moderate the urgency of attention to audit and evaluation recommendations. Aware of the challenges, CRS has acted conservatively, deliberately limiting the number of recommendations in any audit or evaluation report, and then tracking only key recommendations later.

On behalf of the AEC, the CRS Branch monitors the implementation of the more significant action plans developed in response to CRS reports. Appropriately, these action plans have been the focus of AEC scrutiny and approval. The implementation of some important actions, however, including those necessary to improve internal control and to conserve resources, can experience delay.

Particular areas of concern have pertained to Service Contracting, National Procurement – Material Re-provisioning, Materiel Support to Deployed Operations, and Security (Information & Physical).

OAG follow-up audit work has commented on the pace of improvement or response to issues raised. The Department and the OAG are taking action to ensure improved up-front discussion of the practicability of recommendations and the appropriateness of corresponding action plans. In that light, actions requiring immediate attention include:

- refinement by CRS of the Audit & Evaluation Recommendations Management System (AERMS) to permit improved analysis and reporting of the status of action plans. This should provide for web-based updates by OPIs;
- Validation by CRS on a sample basis of the reported status of actions, particularly those reported as completed; and
- Limiting by CRS of the number of key recommendations and continued consideration of the cost-effectiveness of each.





## ANNEX A – CRS PERSPECTIVE ON THE DND MANAGEMENT RISK LANDSCAPE

