



National Defence

Défense nationale

Deputy Minister

Sous-ministre

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Ottawa, (Ontario)  
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SEP 27 2022

The Honourable John Williamson  
Chair, Standing Committee on Public Accounts  
House of Commons  
Ottawa, Ontario  
K1A 0A6

Dear Mr. Williamson,

As agreed upon in the Government Response to the 4<sup>th</sup> Report of the Standing Committee on Public Accounts entitled *Report 3, Supplying the Canadian Armed Forces – National Defence, of the 2020 Spring Reports of the Auditor General of Canada*, National Defence submits its update on Recommendation 1.

Sincerely,

Bill Matthews

Enclosures: 1

**Response to the Standing Committee on Public Accounts'  
Report 4, Supplying the Canadian Armed Forces, of the Spring 2020 Reports of the  
Auditor General of Canada**

**Recommendation 1**

*That, by 30 September 2021, National Defence provide the House of Commons Standing Committee on Public Accounts with a progress report with regard to: A) reviewing its materiel forecasting and positioning to ensure that sufficient stocks are maintained at the right locations; and B) reviewing its materiel availability measures at the warehouse and national levels and using these measures to monitor whether stock levels are met. A final report should be provided by 30 September 2022.*

**Background**

In the spring 2020 report *Supplying the Canadian Armed Forces – National Defence*, the Auditor General recommended that National Defence review its materiel forecasting and positioning to ensure that sufficient stocks are maintained at the right locations, and that National Defence reviews its materiel availability measures at the warehouse and national levels and use these measures to monitor whether stock levels are met.

National Defence agreed with the recommendation, and in its 2020 Management Action Plan committed to improve its capability to forecast materiel requirements, position materiel, and measure materiel availability at the warehouse and national levels to better serve the Canadian Armed Forces (CAF). The Management Action Plan identified the specific actions and initiatives to deliver on these foundational aspects of a modern and effective Defence Supply Chain.

In its 2021 Government Response to the House Standing Committee on Public Accounts' report, submitted to the Committee on March 25, 2021, National Defence committed to undertake two relevant reviews. The first focuses on how National Defence materiel holdings are planned to ensure the right quantities of the right items are available for use and are stored in locations that result in an overall better level of service. The second review examines how National Defence measures materiel availability at the individual warehouse level, as well as across the national supply chain.

In its September 2021 update to the Committee, National Defence reported that it completed a review of its materiel availability measures in July 2021. The outcomes of this review resulted in the update of an existing inventory availability indicator to measure materiel at the national level, and the development of a new inventory availability indicator to measure materiel at the warehouse level. Additionally, National Defence reported that it continued to undertake a review of its materiel forecasting and positioning processes (Review #1) to ensure that sufficient stocks are maintained at the right locations. National Defence committed to providing a final report to the Committee by September 30, 2022, identifying the results and outcomes of Review #1, including the performance improvement implementation plan.

**Update on Review #1: National Defence's materiel forecasting and positioning**

In August 2022, National Defence completed a review of its materiel forecasting and positioning processes (Review #1).

The outcome of Review #1 has resulted in:

- Completing updates to the Department's Supply Administration Manual, which provides specific guidance for Defence Supply Chain practitioners in materiel forecasting and planning processes; and,
- Presenting materiel positioning data analysis to the Defence Supply Chain Oversight Committee, which monitors supply chain performance. This Governance committee is co-chaired by the Director of Staff – Strategic Joint Staff and the Assistant Deputy Minister (Materiel).
- The final results of National Defence's review of materiel forecasting and positioning policies, tools, and processes (Review #1) is now anticipated to be presented to the Defence Supply Chain Governance in fall 2022.

### **Update on the performance improvement implementation plan**

The performance improvement implementation plan is now anticipated to be presented to the Defence Supply Chain Governance for approval in fall 2022.

Informed by the results of Review #1, elements of the performance improvement implementation plan include enhancing materiel availability monitoring through supply chain analytics, increasing practitioner knowledge of the materiel forecasting and planning discipline, and replacement of the current Materiel Forecasting and Planning tool.

To replace the current software tool, National Defence has undertaken an initiative to acquire and implement the next generation of Materiel Forecasting and Planning tools. An options analysis was undertaken and completed in August 2022 to validate requirements, identify potential solutions, and determine a best fit option.

The replacement software will be integrated with the next generation Enterprise Resource Planning System when it is delivered in the 2028 timeframe. These tools will improve National Defence's ability to forecast materiel requirements, identify excess stock, and position materiel appropriately, which will better serve the Canadian Armed Forces.

### **Recent Materiel Management Achievements**

To ensure that materiel continues to be available and well-managed, the Department of National Defence also continued to enhance materiel accountability through its Strategic Initiative to improve supply chain performance, which was initiated in 2020, incorporating the Auditor General's Supplying the Canadian Armed Forces audit recommendations. The following are notable achievements from Fiscal Year 2021/2022, which have delivered optimized support to meet National Defence requirements:

- **Developed the Defence Supply Chain Performance Measurement Framework:** Rolled out across National Defence during Fiscal Year 2021/2022, the performance measurement framework informs decision-making on subjects such as responsiveness, accuracy, cost, and equipment readiness. The Defence Team has implemented an active governance structure to ensure effective collaboration across National Defence.

This governance structure is providing oversight on the implementation of the Defence Supply Chain Performance Measurement Framework in Fiscal Year 2022/2023.

- **Advanced a series of integrated initiatives to modernize business processes executed within the Defence Supply Chain:** For example, National Defence published instructions to ensure that vendors apply unique identification marks to high-value and/or controlled items prior to their introduction to the supply system, and a contract was awarded to mark items held in legacy inventory. This effort will establish a critical mass of markings (similar to bar codes in a store) to support automatic identification technology adoption, which will deliver handheld barcode reading technologies to the supply community. As part of the Automatic Information Identification project, National Defence anticipates awarding the contract for implementation of this technology in 2024. National Defence is scheduled to provide an update to the Public Accounts Committee in May 2023 on progress of the project, as part of its annual report on Improvements in Inventory Management.

Together, the initiatives reported in this update to the Committee will improve asset visibility and ensure the right quantities of the right items are available for use and are stored in locations that result in an overall better level of service for the Canadian Armed Forces.

## **Conclusion**

Once Defence Supply Chain Governance approves the final results of Review #1 and the improvement implementation plan in fall 2022, all commitments related to recommendation 1 in the Standing Committee on Public Accounts' 4<sup>th</sup> Report entitled *Report 3, Supplying the Canadian Armed Forces, of the Spring 2020 Reports of the Auditor General of Canada* will be fulfilled, thereby concluding this update to the Committee.