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ASSISTANT DEPUTY MINISTER (REVIEW SERVICES)



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# Review of Defence Renewal

**Final Report – May 2017**

**7055-64 (ADM(RS))**

Canada 



## Acronyms and Abbreviations

ADM(Fin)/CFO	Assistant Deputy Minister (Finance) / Chief Financial Officer
ADM(Mat)	Assistant Deputy Minister (Materiel)
ADM(IE)	Assistant Deputy Minister (Infrastructure and Environment)
C Prog	Chief of Programme
DND	Department of National Defence
DR	Defence Renewal
DROC	Defence Renewal Oversight Committee
DRT	Defence Renewal Team
L1	Level 1
VCDS	Vice Chief of the Defence Staff



## Statement of Conformance

The review followed the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Based on its professional judgment, the review team examined sufficient, relevant evidence and obtained sufficient information to provide a reasonable level of assurance to support the review's conclusions.



## Background – Defence Renewal

- **Defence Renewal (DR) Objective:** To create a lean and efficient organization that can generate savings to be reinvested in military capabilities and readiness.
- There are nine focus areas of renewal with 33 DR initiatives—24 performance and nine organizational practices.
  - According to the October 2013 DR Plan, “the global reinvestment opportunity is projected to be in the range of \$750 million to \$1,200 million annually by 2017/18. This includes the potential for internally re-prioritizing between 2,800 and 4,800 military and civilian personnel on higher value work, either within a given organization, or elsewhere within Defence.”
- The four key outcomes of DR are as follows:
  - **Resources to be focussed strategically** on front-line military capabilities and readiness and overhead costs and process inefficiencies to be reduced to the greatest extent possible.
  - A comprehensive **regime of performance metrics and targets** to be in place and employed to measure and assess improvements, guide resource allocation decisions, and ensure accountability.
  - **Technology and innovation** will be embraced and used in ways that support, reinforce and enable process improvements.
  - A **culture of continuous improvement and renewal** will be instilled and accepted as a permanent feature of defence business.



# Rationale, Objective and Criteria

## Rationale

- Assistant Deputy Minister (Review Services) Risk-Based Audit Plan for fiscal years 2015/16 to 2017/18.
- The Departmental Audit Committee was asked to “provide an oversight and audit mechanism for renewal, assessing and validating progress, and helping to ensure renewal initiatives generate the expected reinvestment opportunities” (DR Charter, October 2013).

## Objective

- To determine whether governance structures, risk management practices and internal controls are in place to facilitate informed decision making to achieve expected reinvestment opportunities and to effectively measure, assess, monitor and report on progress in implementing DR.

## Criteria

- A. Governance structures and control mechanisms are in place to measure, assess, monitor and report on the progress of DR, and to manage the reinvestment of savings identified.
- B. The DR initiatives have established and maintained savings targets and timelines to achieve the expected reinvestment opportunities with well supported and relevant analysis.
- C. Risks associated with achieving the DR objective are appropriately managed at both the initiative and program levels.



# Scope, Methodology and Approach

## Scope

- From DR initiation to the end of review conduct phase.

## Methodology

- Interviews – Conducted interviews with the following individuals:
  - Key staff of the Defence Renewal Team (DRT);
  - Implementation teams of each of the sampled initiatives; and
  - Staff from Assistant Deputy Minister (Finance) / Chief Financial Officer (ADM(Fin)/CFO) and Corporate Secretary.
- Document Review – Reviewed relevant policies, planning and implementation documents, management information and reports, committee meeting documents and Department of National Defence (DND) analysis for the reinvestment opportunities proposal of the sampled initiatives.
- Sampling – Selected four initiatives (listed on Slide 7) primarily based on materiality and the maturity of implementation.



## The Four Sampled Initiatives

Performance Initiative	Description	L1 <sup>1</sup> Lead	Reinvestment Opportunity Estimates (over 5 years) \$ million <sup>2</sup>	Reinvestment Opportunity Declared by the Initiative Leads for FY 2013/14 - 2014/15 \$ million <sup>3</sup>
2.1	Inventory Management	ADM(Mat) <sup>4</sup>	87 – 162	96.2
2.4	Departmental Procurement	ADM(Mat)	160 – 196	15
4.2	Rationalize Real Property Portfolio	ADM(IE) <sup>5</sup>	69 – 127	7
6.2	Project Approval Process Review	VCDS <sup>6</sup>	90 – 110	0
	Total Sampled Initiatives		406 – 595	118.2
	<b>Total Sample Coverage (%)</b>		<b>50.6 – 54.9</b>	<b>74.8</b>
	Total for All Performance Initiatives		739 – 1,177	158

**Table 1. The Four Sampled Initiatives.** This table shows for each of the sampled initiatives, the L1 Lead and the reinvestment opportunities estimated originally and declared for fiscal years 2013/14 and 2014/15.

1. L1 = Level 1

2. Figures as provided in the October 2013 DR Plan.

3. Figures are provided in the DR Annual Reports 2013-2014 and 2014-2015. Amounts declared confirmed by Defence Renewal Reporting Template of the sampled performance initiatives.

4. ADM(Mat) = Assistant Deputy Minister (Materiel)

5. ADM(IE) = Assistant Deputy Minister (Infrastructure and Environment)

6. VCDS = Vice Chief of the Defence Staff



## Context – The Four Sampled Initiatives

### 2.1 – Inventory Management Initiative

- This initiative aims to avoid incurring the cost of unnecessary items by optimizing the amount of inventory procured and held.
- Reinvestment opportunities are identified by the reduction of stock overbuys as captured in the Distribution Resource Planning system, which is consistent with the process used for the Materiel Acquisition and Support Transformation Campaign, and throughout the Deficit Reduction Action Plan. The initiative serves as an enabler to smart procurement through a combination of tools, stock accuracy, discipline and cultural change. Thus, it is difficult for the initiative to attribute the reinvestment opportunities to any one specific project or sub-initiative.

### 2.4 – Departmental Procurement Initiative

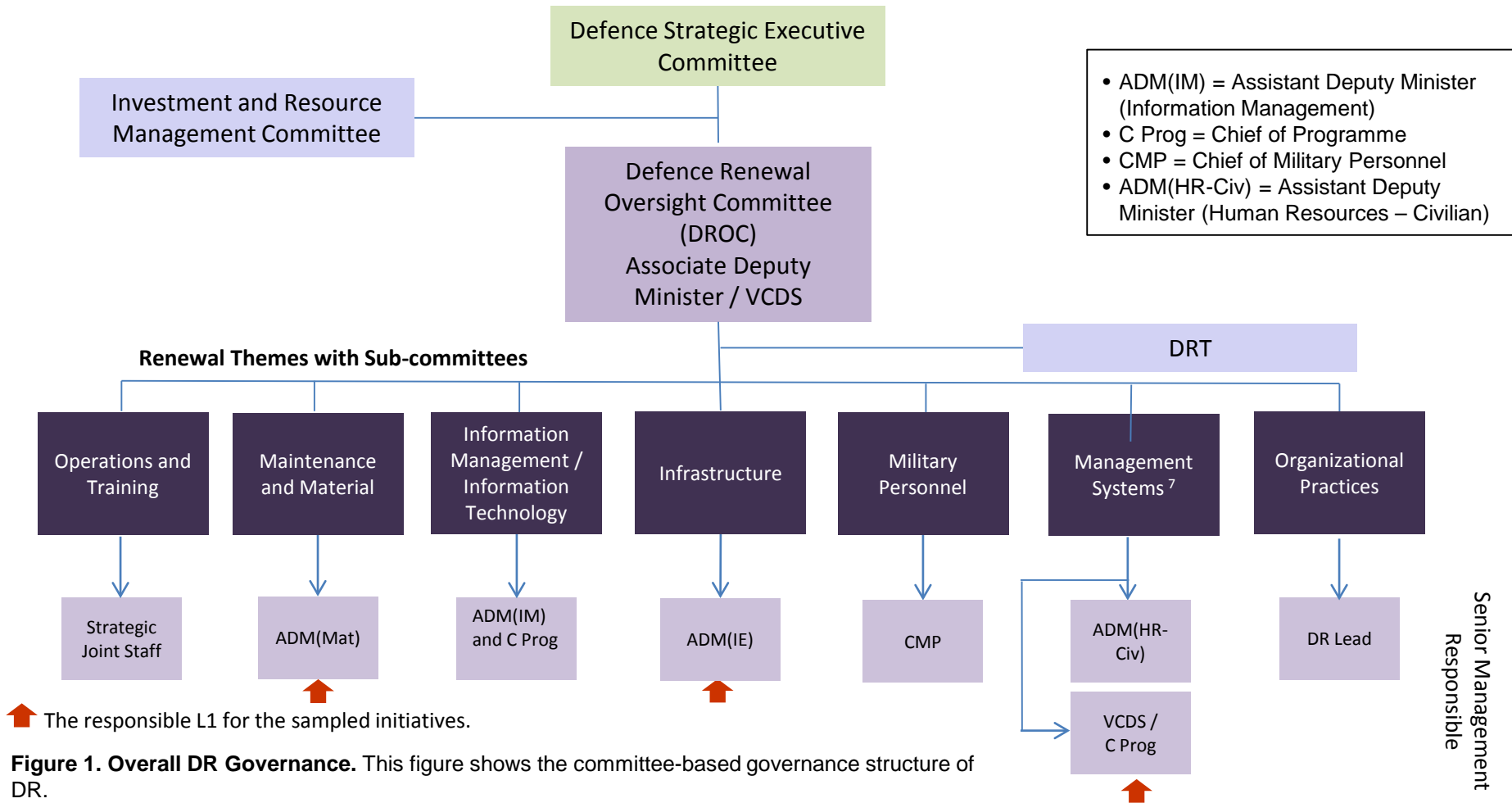
- This initiative aims to apply best practices approaches to DND “spend” across the Department, using all DND-controlled procurement levers to maximize value to DND.
- The renewal opportunity is addressed by utilizing a wide range of management efficiency levers, such as policy and process simplification and standardization of products/services. For initiative 2.4, reinvestment opportunities will be realized and harvested from multiple L1 organizations that procure goods and services.







# Context – DR Governance



**Figure 1. Overall DR Governance.** This figure shows the committee-based governance structure of DR.

7. The Management Systems initiatives were governed by the Civilian Workforce Management Board, which has recently been disbanded. The Civilian Human Resources Management Committee will provide oversight of strategic civilian human resources management issues but has yet to be assigned DR governance responsibilities. Pending approval by the Program Management Board, it will also provide oversight of the Project Approval Process Review governance.



## Context – DR Governance (p.2)

### Governance and Reporting

Governance and reporting are a combination of pre-existing structures and the establishment of new structures that allows governance to occur at multiple levels of the organization.

- DROC was established in 2015 as a subordinate to the Defence Strategic Executive Committee to provide guidance and review of DR activities.
- The DRT, established by the Charter and governance decisions, is the strategic transformation team. The role of the DRT includes the following:
  - Brief at multiple governance committees; and
  - Operate under co-leads (Associate Deputy Minister and VCDS).
- Initiative Leads are the responsible implementing L1s who are governed by sub-committees. They report through DRT to DROC and report as L1s via normal business planning coordinated by C Prog.

**Note:**

Level 0 usually represents senior management at the Deputy Minister / Senior Associate Deputy Minister / Associate Deputy Minister and CDS/VCDS level.

L1 usually represents Assistant Deputy Minister and Environmental Chiefs of Staff level.



## Context – DR Governance (p.3)

### Reinvestment Opportunity Management

- Reinvestment Framework is now part of department-wide business planning.
- It has evolved with DRT, ADM(Fin)/CFO, C Prog and Chief of Force Development, and it was approved at the January 13, 2016 Investment and Resource Management Committee.

### Performance Management

- Performance management is evolving with the DR Performance Management Framework.
- Initiative performance management is the responsibility of each Initiative Lead, assisted by DR liaison officers and managed at multiple levels.

### Risk Management

- Risks are managed at multiple levels – Initiative Lead, DRT, DROC and Defence Strategic Executive Committee – through business planning.



## Context – Ongoing Efforts

### Examples of Ongoing Efforts to Strengthen the Delivery of DR

- The Change Management Services contract was awarded in October 2014 to a consulting firm to “provide guidance, analysis, advice and recommend methodologies that have shown demonstrable impact as best practices for change management in the defence and private sectors for improving effectiveness and efficiency.” Some of the key deliverables include assisting the DRT with the important effort to develop metrics and a performance measurement framework and with smaller discrete projects and activities for the development, design and implementation of efficient processes.
- The DROC was established in April 2015 and forms part of the larger governance structure of the Department.
- Ongoing Deep Dives will discuss and provide input into the reinvestment opportunities identified by the component initiatives and provide confidence in the overall progress of DR at Level 0.



## Context – Reinvestment Opportunities

### The Reinvestment Opportunity Portfolio

- The October 2013 DR Charter states that “the reinvestment opportunity portfolio is not static; as analysis is refined and implementation unfolds, the reinvestment opportunities associated with the initiatives will evolve.”
- A reinvestment opportunity can be categorized as follows:
  - a) Cost avoidance
  - b) Effectiveness
  - c) Efficiency – achieving the same output or effect with fewer resources, thus producing financial savings that can be harvested and reallocated.
- As part of ongoing governance processes, which include trimestral and annual processes, the DRT performed a profile update in January 2016 to present to the Investment and Resource Management Committee. This latest update, which is a snapshot in time and the fourth update since DR inception, showed a slightly lower range of reinvestment opportunities by fiscal year 2017/18 than initially planned (\$739 million to \$1,177 million).



# Context – The DR Reinvestment Framework and Model

## The DR Reinvestment Framework and Model

- The DR Reinvestment Framework has evolved since the October 2013 DR Plan called for its development. For example, a reinvestment model was developed and approved at the Investment and Resource Management Committee in January 2016, in addition to the Framework. The Framework aims to provide direction on the process that the Investment and Resource Management Committee will use to manage efficiency savings that can be harvested for reinvestment elsewhere within Defence. The Reinvestment Model provides the overall direction to validate, track and report all DR reinvestment opportunities. Among other things, the Framework and Model help to do the following:
  - Address the reinvestment process, which consists of identifying, categorizing, declaring, forecasting and reallocating reinvestment opportunities;
  - Incorporate DR directly into the business planning process to ensure that senior management can reinvest those resources stemming from reinvestment opportunities into higher priorities; and
  - “Ensure opportunities are appropriately identified, actively pursued, strategically monitored and judiciously invested...,” as per the goal of the Framework in the DR Annual Report 2013-2014.



# Summary of Results

Criteria / Area Reviewed		Lines of Enquiry	Results by DR Program and Initiative				
			DR/DRT <sup>8</sup>	2.1	2.4	4.2	6.2
A	Governance	Governance structures and oversight are in place, with reasonably clear roles and responsibilities.	●	●	●	●	●
A		Regular meetings and reporting of implementation progress and performance.	●	●	●	●	◐
A	Reinvestment Opportunities	Mechanism is in place to track, substantiate and report on reinvestment opportunities achieved.	●	●	●	◐	n/a
A		Independent validation of reinvestment opportunities prior to declaration and reporting.	◐	n/a	n/a	n/a	n/a
A		The approach to reinvestment opportunities realization is well developed with clear guidelines at the implementation level.	◐	n/a	n/a	n/a	n/a
A	Progress Management and Monitoring	Implementation of the initiatives is tracked at a high level with key milestones/sub-initiatives.	●	●	●	●	●
A/B		A detailed analysis has been conducted that resulted in an approach to implementation with reasonable details and timeline.	n/a	◐	●	◐	●
A/B		The progress of implementation and reinvestment opportunities can be readily measured by the status of the key milestones/activities.	◐	◐	●	◐	◐
A		Key documentation related to the implementation of DR is properly maintained and kept up to date.	●	◐	◐	◐	◐
A		Significant investment costs for the implementation and/or steady state have been identified; implementation related costs have been identified, tracked and readied for aggregate reporting.	●	●	●	◐	●
C	Risk Management	DR related risks have been reasonably identified with mitigation.	●	●	●	●	●
C		Risk management documentation (i.e., risk management plan, risk register) are in place with sufficient details and kept up to date.	●	●	◐	◐	◐
C		A consistent approach to risk management is practiced across DR.	◐	n/a	n/a	n/a	n/a

**Table 2. Summary of the Review Results.** This table shows the summary of assessment results by line of enquiry for DR as a program, DRT, and the sampled initiatives.

8. DR/DRT column includes multiple stakeholders, including the CFO, who form the governance and control mechanisms for DR.

● Acceptable; ◐ Need to continue some progress;  
n/a = not applicable





# Findings and Recommendations

**Finding 1:** Detailed analysis and implementation plans that demonstrate how sampled initiatives will meet the intended reinvestment targets have not been adequately developed to facilitate effective progress assessment and monitoring.

- Two of the four sampled initiatives did not have supporting assumptions and activities listed that were linked to monetary savings to show how they would achieve the planned targets.
- Implementation plans were not up to date or completed for all sampled initiatives.
- Identification of the detailed activities has not been completed for three of the four sampled initiatives, and DRT only tracks key milestones/activities for 12 months at a time.
- Leading indicators have not been developed or used to enable projection of the timing when reinvestment opportunities will be achieved.
- There are indications that the initial targets will not be met by fiscal year 2017/18.

## ADM(RS) Recommendation

1. The DROC should ensure that the DRT work with the initiatives to confirm the reinvestment opportunity targets and ensure there is a methodology in place for the Initiative Leads to implement, monitor and report on their respective performance.

## Key Considerations for the Development of a Management Action Plan:

- Provide the necessary rigour in the quantification and substantiation of the reinvestment opportunities analysis so that opportunities can be fully verified. This would include identifying assumptions and activities that are attributed to achieving each reinvestment opportunity;
- Introduce new initiatives that could contribute to the overall reinvestment opportunity targets;
- Develop implementation plans that are in line with the reinvestment opportunity and performance measurement framework; and
- Link key initiative activities and their associated reinvestment opportunity with delivery timelines.

**OPI:** DROC



## Findings and Recommendations (p.2)

**Finding 2:** The Reinvestment Framework/Model has been developed, but further details need to be completed and communicated to ensure reinvestment opportunities can be achieved and reinvested by the Department as intended.

- Clear guidelines have not been fully developed at the implementation level and adopted to ensure reinvestment opportunities can be identified, declared, harvested, reinvested and tracked consistently across DR.
- Previously achieved reinvestment opportunities have not been validated independently before reporting at the Departmental level.

### **ADM(RS) Recommendation**

2. ADM(Fin)/CFO, in consultation with the DRT and L1s as required, should complete the DR Reinvestment Framework/Model with sufficient operational details to allow for independent validation of achieved reinvestment opportunities and to facilitate consistent realization and harvesting of reinvestment opportunities at the implementation level.

### **Key Considerations for the Development of a Management Action Plan:**

- Sufficient clarity is required to ensure a consistent understanding; and
- Focus on efficiency opportunities that can be reallocated, with a mechanism to bring these for Deputy Minister / Chief of the Defence Staff reinvestment decision making.

**OPI:** ADM(Fin)/CFO



## Findings and Recommendations (p.3)

**Finding 3:** Appropriate guidance to ensure a consistent approach to risk management across DR is not in place.

- Three of the four initiatives sampled did not have a documented risk management plan in place and did not have a complete or up-to-date risk register in place.
- A consistent approach to risk management was not observed across initiatives – i.e., inconsistent risk scales were used.

### ADM(RS) Recommendation

3. The DROC should instruct the DRT to develop, communicate and implement guidelines related to risk management to help ensure that key risks are appropriately managed and mitigated across DR.

#### Key Considerations for the Development of a Management Action Plan:

- Develop risk management plans for initiatives;
- Ensure consistent use of scales to assess risks;
- Ensure risk registers are up to date with mitigation plans; and
- Improve the mechanism in place for the roll up of key risks to be elevated to the DRT for strategic analysis and mitigating action.

**OPI:** DROC



## Conclusion

Based on the results of this review, further detailed analyses still need to be completed to demonstrate and ensure the achievement of the initial reinvestment opportunities. Some initiatives did not have a current detailed plan in place to reach their intended reinvestment opportunity targets. As the original timelines and progress have been slower than originally planned, new initiatives should be considered to help increase the likelihood of meeting the opportunity targets. The controls and measures in place for monitoring also need to be improved so that reinvestment opportunities can be achieved. Completion of the Reinvestment Framework/Model with specific details for operationalization will establish a consistent approach for the reinvestment of opportunities. Furthermore, the management of risks can be improved with a more consistent approach and better documentation across DR.



# Annex A—Management Response and Management Action Plan

## Management Response Provided by DROC Co-chairs

The DROC has examined the August 2016 draft report on the Review of Defence Renewal and is pleased to respond to the findings and recommendations of the report.

The provision of an independent assessment of the governance structures, risk management practices and internal controls is timely and serves to strengthen the program while helping ensure that we can effectively measure, assess and validate the progress of the renewal initiatives. The report comes at a critical time for the DR program in that the majority of initiatives are making the transition from the planning and design phases into implementation.

DR is already providing considerable benefit to the DND / Canadian Armed Forces. As the report notes, the four initiatives examined contributed \$118 million in recurring impact to the Department by fiscal year 2014/15. This, however, represents only a portion of the work being conducted. In fact, as of fiscal year 2015/16, a recurring impact of approximately \$240 million has been reached across DR.

While there have been challenges with respect to the timing of implementation and effort involved, initiatives are delivering results, and savings have been reinvested.

Renewal is on track to be within the envisioned target range of \$750-\$1,200 million by fiscal year 2019/20.

Driving efficiencies within the Defence Program, however, is only one aspect of the Renewal Program. The ultimate goal of DR, is to develop a culture of continuous improvement with respect to how DND and the Canadian Armed Forces operate their business. A key driver will be to utilize robust performance measurement to support business intelligence and analytics. Recent work by DR through the DR-Performance Management Framework demonstration project will assist the department to leverage existing data systems – financial and performance data, in the establishment of an Enterprise Business Intelligence and Analytics environment.

The use of evidence based decision making will strengthen the overall governance structure of the department, ensuring that the Canadian Armed Forces remains an effective force while demonstrating strong stewardship of the Government of Canada's financial resources.

We have work to do and the recommendations of the Review of Defence Renewal will help us achieve our ambitious objectives.



# Annex A—Management Response and Management Action Plan (p.2)

## ADM(RS) Recommendation

1. The DROC should ensure that the DRT work with the initiatives to confirm the reinvestment opportunity targets and ensure there is a methodology in place for the Initiative Leads to implement, monitor and report on their respective performance.

OPI: DROC

Management Action Plan	Target Completion Date
<p>Agreed. While some of the initiatives have progressed well and developed methodologies and plans to ensure delivery of the targets, others have not reached that stage. The DRT will therefore work with each initiative to ensure that it has a business plan in place to formalize approaches to reaching targets. These business plans will include: formalizing the concept and methodology for obtaining — along with financial estimates — the desired results; preparing rule sets for monetizing the value of the impacts; and identifying steps for implementation including detailed milestones.</p> <p>In addition, the DROC will: continue to monitor the progress of initiatives at each meeting; discuss potential risks and shortfalls; and make recommendations to the Defence Strategic Executive Committee regarding the achievability of targets.</p> <p>All initiatives will have a business plan in place by March 2017.</p>	<p>March 2017</p>



## Annex A—Management Response and Management Action Plan (p.3)

### ADM(RS) Recommendation

2. ADM(Fin)/CFO, in consultation with the DRT and L1s as required, should complete the DR Reinvestment Framework/Model with sufficient operational details to allow for independent validation of achieved reinvestment opportunities and to facilitate consistent realization and harvesting of reinvestment opportunities at the implementation level.

OPI: ADM(Fin)/CFO

### Management Action Plan

### Target Completion Date

CFO will promulgate the DR Reinvestment Framework and Model to L1s. The Framework serves to articulate the process to harvest and reallocate efficiency savings and the Model identifies the rulesets for monetizing the value of cost avoidance and efficiencies from actual savings. CFO will continue to work with the DRT as part of its “deep dive” efforts to assist in the development of financially sound rulesets and monetization methodologies associated with the DR initiative targets to formulate the Model. To deliver the DR Reinvestment Framework, the CFO will leverage existing departmental planning and reporting governance and mechanisms. Specifically, as part of the Defence Planning and Business Planning Guidance issued to the L1s by the VCDS, the CFO will request L1s to declare their savings in relation to their targets and will request proposals for reinvestment opportunities, if applicable. Identified reinvestment opportunities will be considered by the Investment and Resource Management Committee in the initial allocation decisions for the following fiscal year. L1 reinvestment submissions will be validated by the VCDS and CFO to ensure consistency with approved rulesets and reinvestment categorization. Bona fide departmental monetary savings and reallocation decisions will be monitored and reported by CFO quarterly to the Investment and Resource Management Committee through the departmental financial dashboard.

April 2017



# Annex A—Management Response and Management Action Plan (p.4)

## ADM(RS) Recommendation

3. The DROC should instruct the DRT to develop, communicate and implement guidelines related to risk management to help ensure that key risks are appropriately managed and mitigated across DR.

OPI: DROC

### Management Action Plan

**Target  
Completion  
Date**

The review highlights that the Defence Renewal Program has many layers of governance, all of which provide risk management to various extents. Risks are managed at multiple levels (Initiative Lead, DRT, DROC and Defence Strategic Executive Committee) through business planning and, for each specific initiative, through various advisory committees, such as the Maintenance and Material Sub-Committee. In addition, three times a year, each initiative already completes a standardized reporting template that includes risks and associated mitigation activities.

Going forward, the DRT will ensure that issues identified on the reporting templates will be uniformly assessed and raised to the appropriate levels of governance and that mitigation plans will be both realistic and implemented as required. A review of all risks identified on initiative reports will be conducted to ensure that they are properly assessed and that mitigation plans are realistic. DRT will also ensure that the initiatives are in line with current departmental policy and guidance, which provide departmental expectations on risk management methodologies, processes and tools.

August 2016

Initial review was completed August 1, 2016. Monitoring is ongoing.