

# Risk Based Stocktaking

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# Overview

In this session, we will explore considerations for a successful stocktaking program

# Stocktaking

Stocktaking is a key activity to a robust inventory management program.

It is the physical count of actual holdings against records.

The intent is to resolve discrepancies report correct quantity, condition and location of materiel.

- Ensures accuracy of inventory holdings
  - Against corporate records
  - In order to meet customer demand
  - To facilitate forecasting and planning
- Identifies possible theft
- Identifies inventory management process deficiencies
- Ensures accuracy of financial reporting
- Improves Materiel Accountability

# Federal Accountability Act

In 2006 The Government of Canada passed the FAA to make government more accountable.

- Intended to **strengthen accountability** & Increase transparency and oversight in operations
- Strengthen auditing and accountability within departments by clarifying the managerial responsibilities of **Deputy Heads**.

## Policy on Management of Materiel

**Ministers are accountable for the management of materiel.** Deputy heads are accountable to their respective ministers and to the Treasury Board for the sound stewardship of the materiel entrusted to them or used by their respective organizations.

- Requires Deputy Heads to ensure a **materiel management framework** is in place
- Deputy Heads to ensure a materiel management information system is in place that ;
  - holds **accurate data** on materiel assets
  - incorporates a stocktaking schedule
  - integrated** with departmental **financial** information system(s)

# Directive on the Management of Materiel

3.2.1 Materiel is managed in a manner that enables operational outcomes, demonstrates **sound stewardship** and best value consistent with the Government of Canada's socio-economic, security and environmental objectives;

3.2.3 Effective governance and oversight mechanisms are in place to support the management of materiel

4.2.5 Implementing **measures to minimize the risk of loss**, damage and unauthorized access to or inappropriate use of materiel by:

4.2.5.1 Implementing **risk-based stocktaking** for materiel by regularly undertaking physical asset verification and reconciliation of the verification results with asset records;

# Office of the Auditor General

Conducts independent audits and studies that provides objective information, advice and assurance to Parliament on;

- Stewardship of public funds
- Operations of federal and territorial governments

## FINANCIAL AUDITS:

- Examines whether financial statements are reasonably accurate.
- Expresses an opinion of the Consolidated Financial Statements of the Government of Canada.

## PUBLIC ACCOUNTS OF CANADA:

- As per Financial Administration Act, the Receiver General (Minister of PSPC) must prepare this report on behalf of the government.

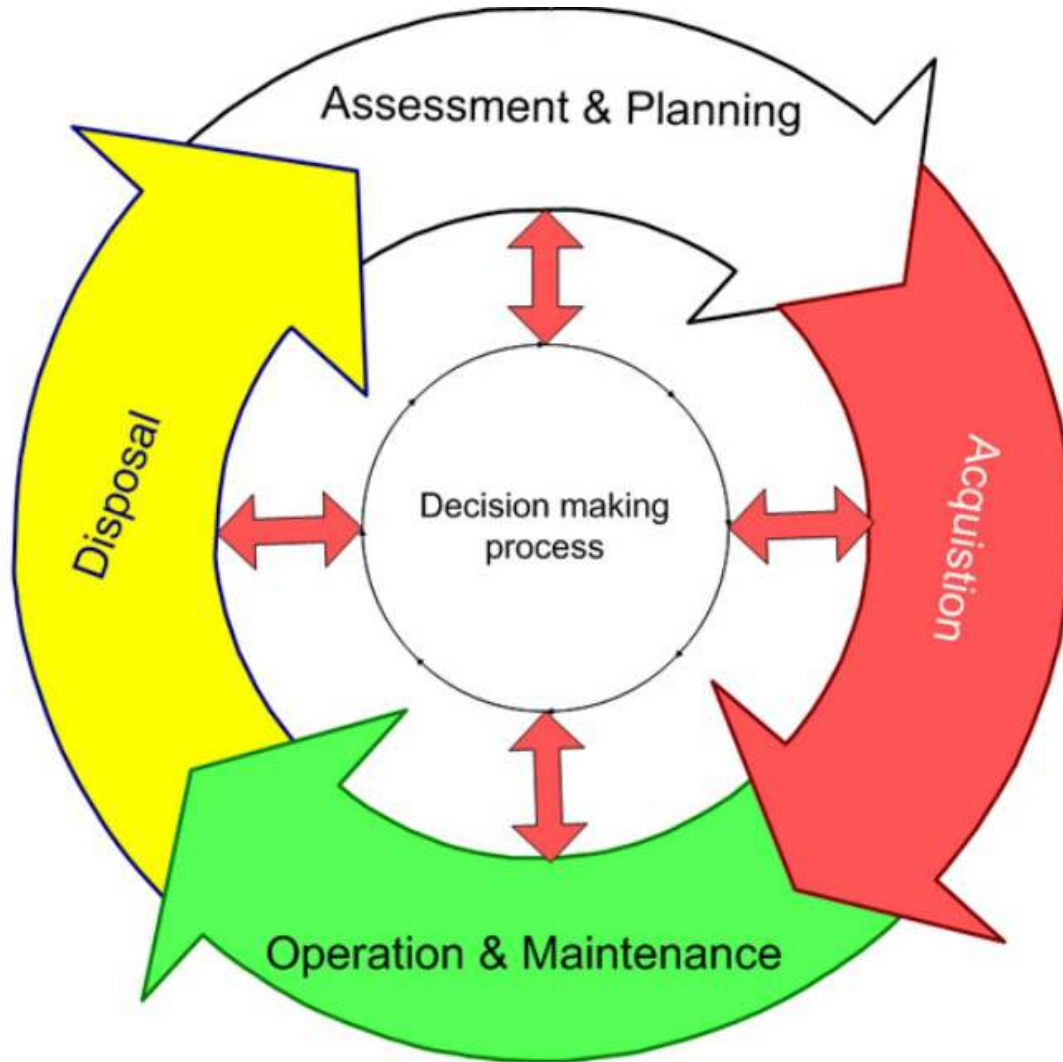
## RESPONSIBILITY OF DEPARTMENTS AND AGENCIES:

- Reconcile its accounts to the control accounts of the Receiver General
- Maintain detailed records of transactions in their accounts.

# Steps For a Successful Stocktaking

- Determine what you are responsible to count
  - Consider materiel custody
  - Materiel ownership
- Determine type of stocktaking
  - 100% stocktaking
  - Cyclical stocktaking
  - Risk based approach - focus is on high risk (security; attractive; valuable)
- Incorporate a schedule
- Maintain a database of inventory holdings and asset tracking
- Conduct physical inspection to determine quantity, condition, location
- Record your results
- Investigate discrepancies
- Adjust your records and ensure reflected accurately in financial reporting
- Report performance (findings and completion)
- Analyse discrepancies.

# Phases of Life Cycle Management





# Considerations - Risk Based Stocktaking

- Accurate materiel Identification at acquisition
  - Security / safety
  - Price
  - Expiry dates
  - Serialized
  - Environmental concerns
  - Attractive
  - Consumable
- Asset tracking / up to date materiel movement
- Access to assets
- Increase visibility of specific inventory while reducing the level of effort required to conduct 100% stocktaking.

# Cycle Counting

**Cycle Count Indicator (CCI)** is used to define a count frequency and group materiel together into various cycle counting categories.

- Allow your ERP to determine cycle count based on movement or location.

OR

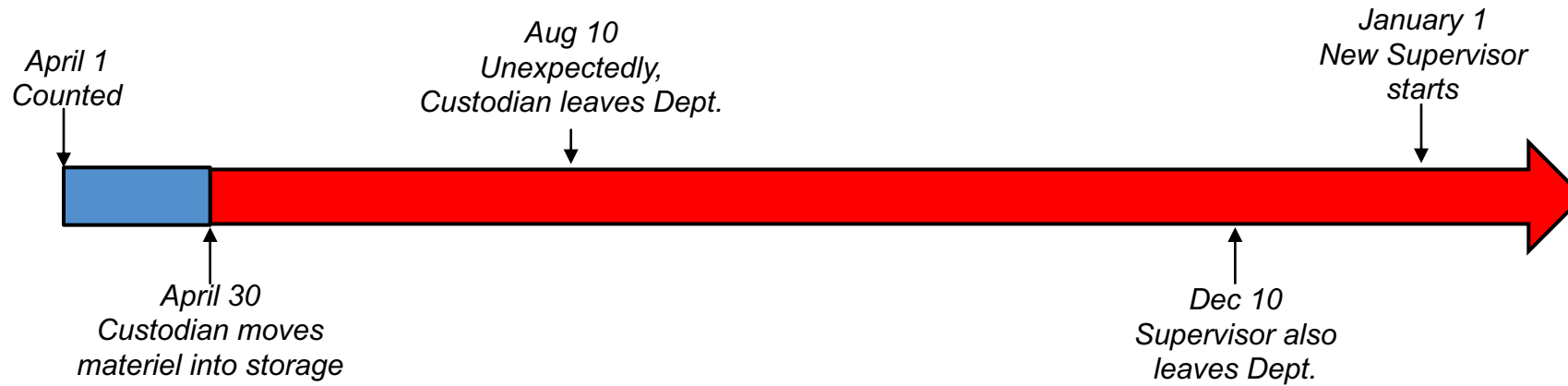
- Predetermine counting frequency based on commodity type :

## HIGH RISK

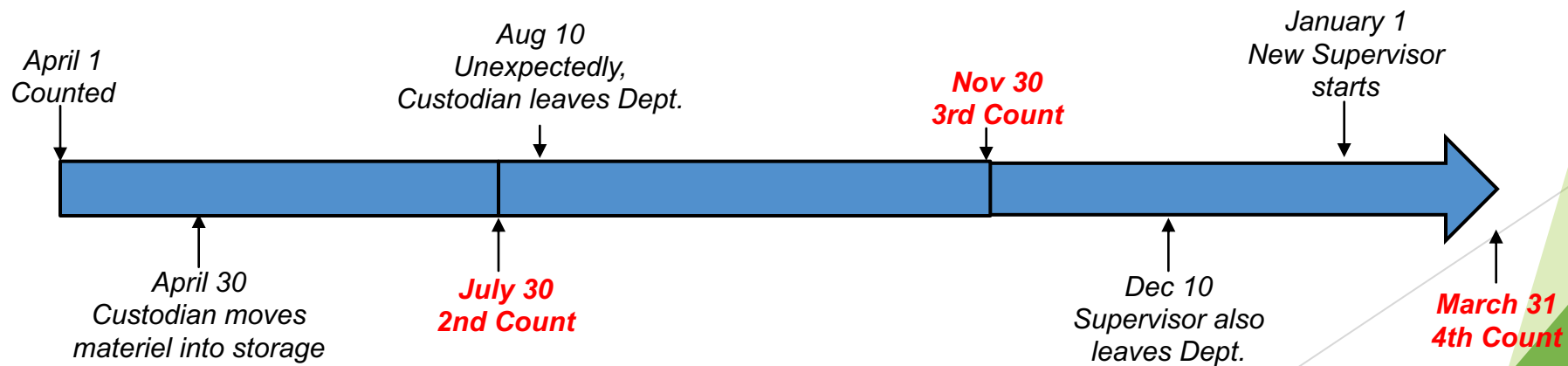
- weapons and weapons components;
- ammunition;
- cryptographic equipment;
- Serial tracked Materiel;
- bulk fuel; and
- Controlled goods

# Path of a High Risk Commodity

## Annual 100% Stocktaking

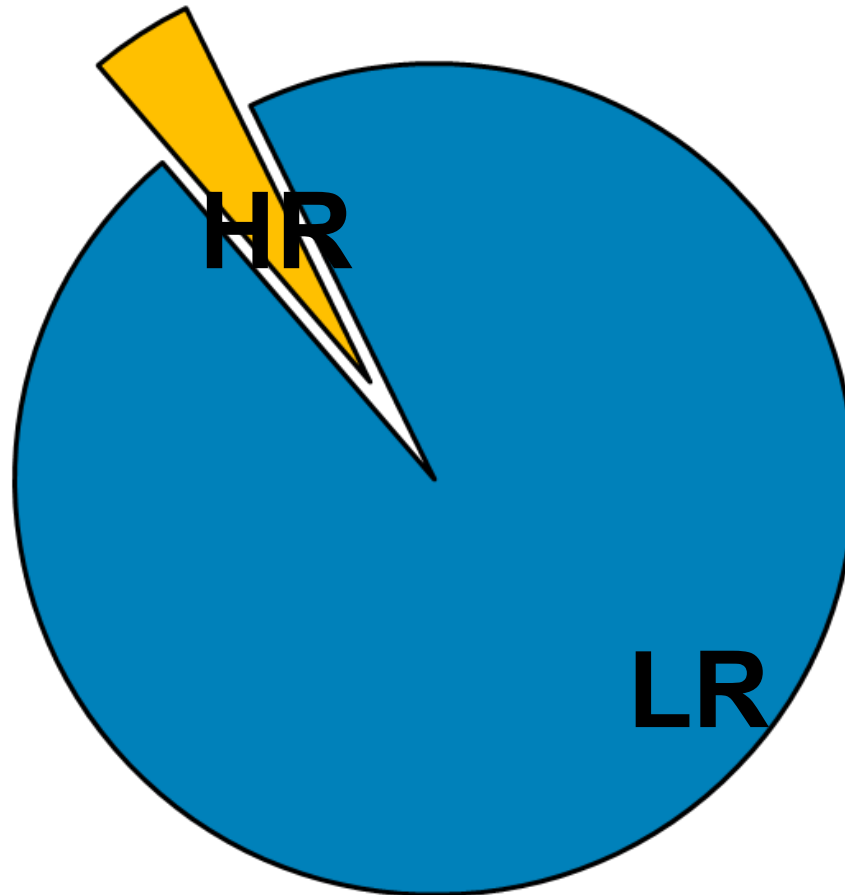


## Cycle Count Stocktaking



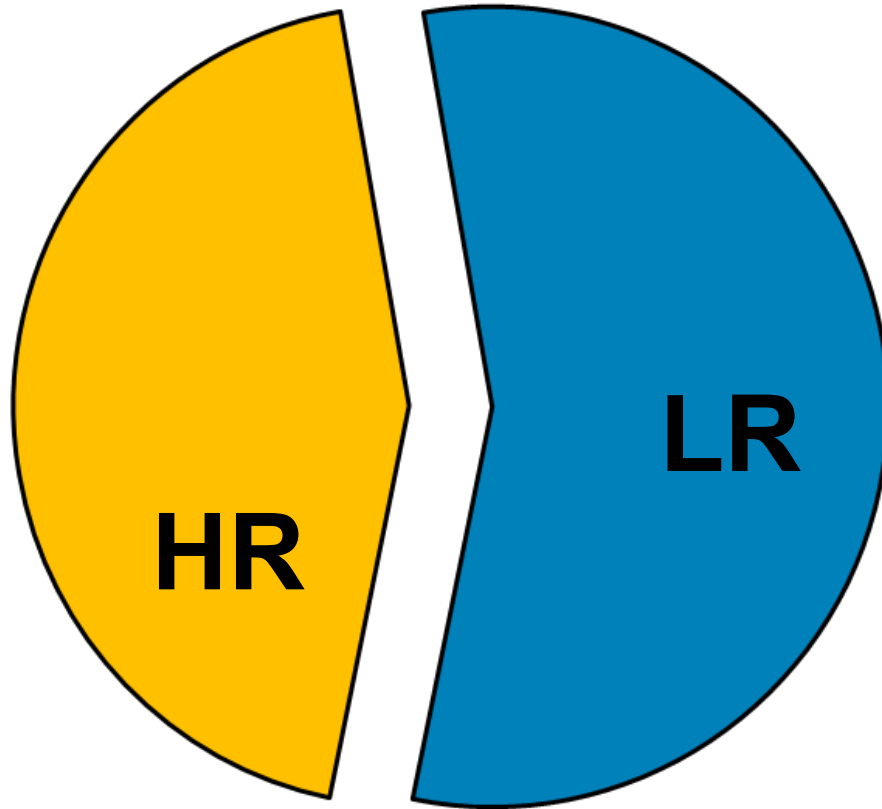
# DND holdings

## All DND Holdings by Quantity



# DND holdings

## All DND Holdings by Value

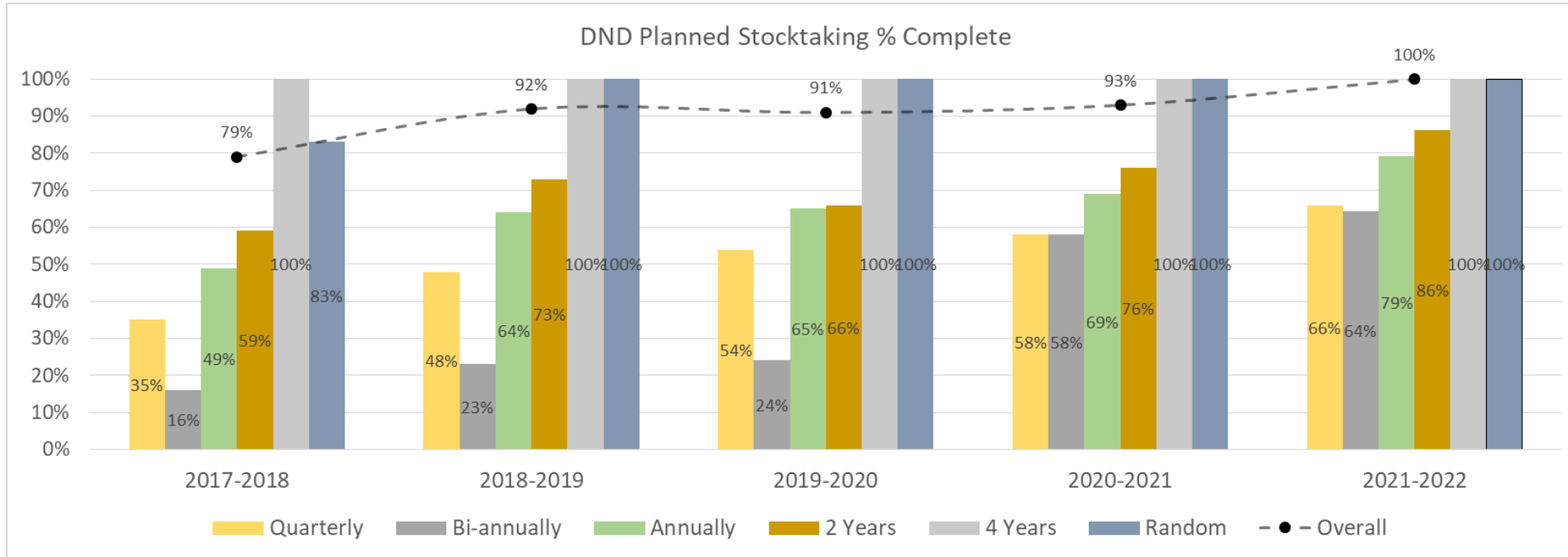


# DND Cycle Count Indicators

- A - monthly;
- B - bimonthly (2 months);
- C - quarterly (3 months);
- D - semi-annually (6 months);
- E - annually;
- F - every Two Years;
- G - every Four Years; and

CC Indicator	Physical inventory interval in days	Number of Physical Inventories per Fiscal Year
A	30	12
B	60	6
C	120	4
D	180	2
E	365	1
F	365	0.5
G	365	0.25

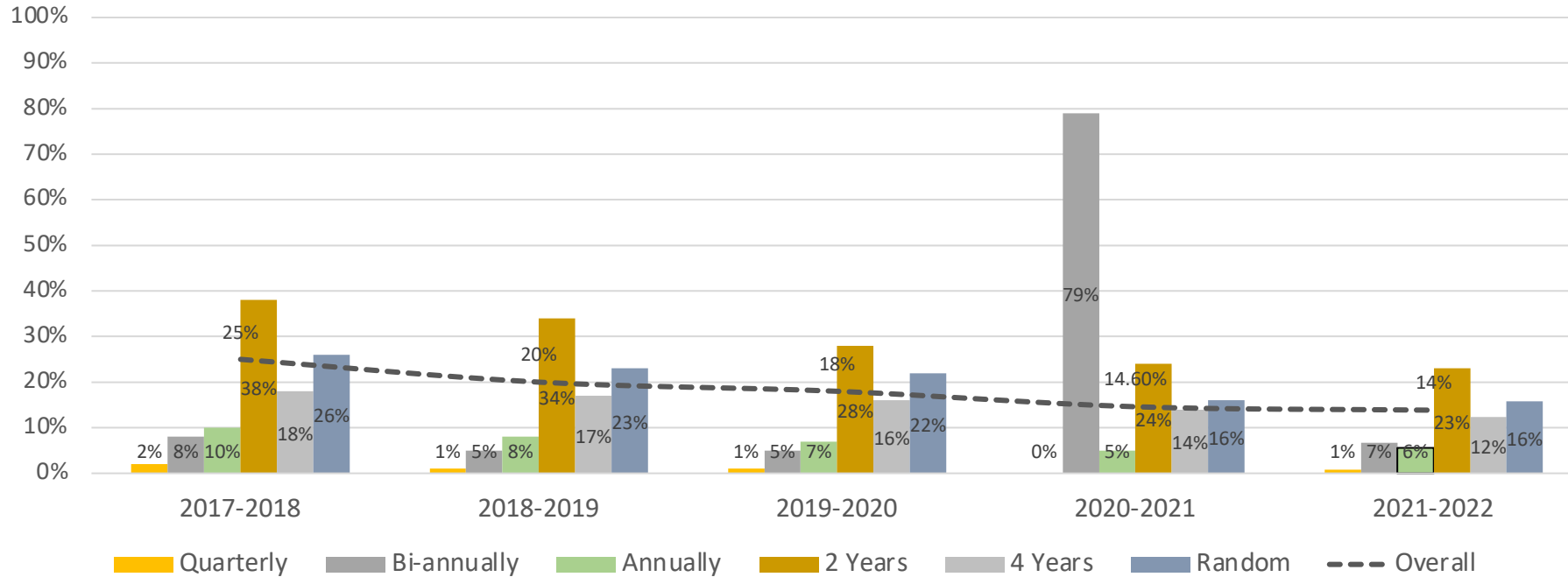
# DND - Stocktaking Trends



DND % Completion	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Overall	79%	92%	91%	93%	100%
Quarterly	35%	48%	54%	58%	66%
Bi-annually	16%	23%	24%	58%	64%
Annually	49%	64%	65%	69%	79%
2 Years	59%	73%	66%	76%	86%
4 Years	100%	100%	100%	100%	100%
Random	83%	100%	100%	100%	100%

# DND - Stocktaking Trends

DND Planned Stocktaking % Discrepant



DND % Discrepant rate	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
Overall	25%	20%	18%	14.60%	14%
Quarterly	2%	1%	1%	0%	1%
Bi-annually	8%	5%	5%	79%	7%
Annually	10%	8%	7%	5%	6%
2 Years	38%	34%	28%	24%	23%
4 Years	18%	17%	16%	14%	12%
Random	26%	23%	22%	16%	16%



Questions ?