

## 12 Stock management in the Defence Forces

- 12.1** Stocks held by the Department of Defence (the Department) at the end of 2022 were valued in the Defence appropriation account at just under €255 million.<sup>1</sup> The majority of the stocks (€254 million) related to military equipment items held by the Defence Forces (see Figure 12.1).<sup>2</sup> These items were held in 383 individual military store accounts in 23 locations across the country and overseas.<sup>3</sup>
- 12.2** A formal review of inventory management in the Defence Forces was carried out in 2014. The report arising from the review — *Review of Inventory Management in the Defence Forces* (referred to as the Dunning report) — was finalised in May 2014.<sup>4</sup> The report identified a number of recommendations for implementation in inventory management which covered, *inter alia*, procurement, management, disposal/write down, valuation, and reporting.
- 12.3** This examination was undertaken to assess the adequacy of the controls in place to manage, value and correctly account for stocks held by the Defence Forces, with a particular focus on the implementation of the Dunning report recommendations. Five locations (which included eight military stores) were visited as part of the examination.<sup>5</sup>

### Stocks held

- 12.4** The value of stock held by the Defence Forces has increased by around 26% since 2017. While recorded stock levels decreased over the period 2012 to 2017, this was mainly due to an ongoing data cleansing and reclassification of assets exercise.
- 12.5** The safeguarding and management of Defence Forces inventory and fixed assets, is underpinned by directives, policies and procedures. Individual Corps Directors are responsible for developing specific policies and procedures for their specialist areas. Account owners and operators in the individual stores are responsible for the implementation of the policies and procedures.

1 Circular 22/2022: *Requirements for Appropriation Accounts 2022* renamed stocks as inventories.

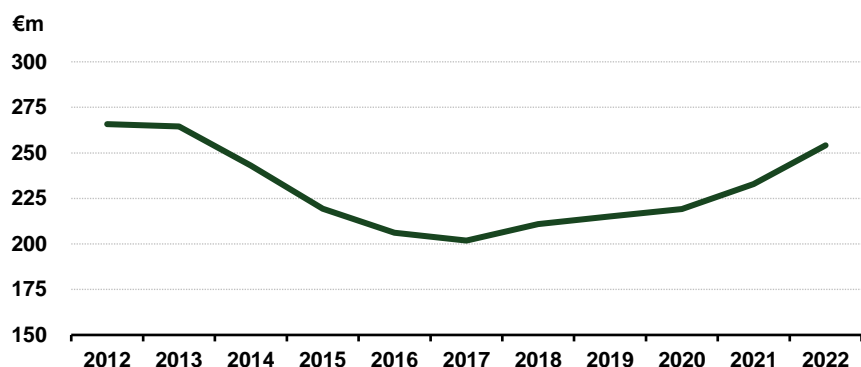
2 The Defence Forces comprise the Naval Service, the Air Corps and the Army Corps. The Army Corps is further divided into nine Corps. Each Corps has a specific area of responsibility.

3 A military store means all buildings or bounded locations where items of Defence Forces equipment are held or stored.

4 The review was undertaken by a working group chaired by Mr Aidan Dunning, former Secretary General of the then named Department of Communications, Energy and Natural Resources.

5 The locations visited were — Baldonnel (Dublin), Air Corps; Haulbowline (Cork), Naval Technical Stores and LÉ Samuel Beckett; Curragh Camp (Kildare), Ordnance and Communications; Collins Barracks (Cork), Communications and Medical; and McKee Barracks (Dublin), Logistics Headquarters.

**Figure 12.1 Value of military stock held by the Defence Forces, 2012 – 2022<sup>a</sup>**



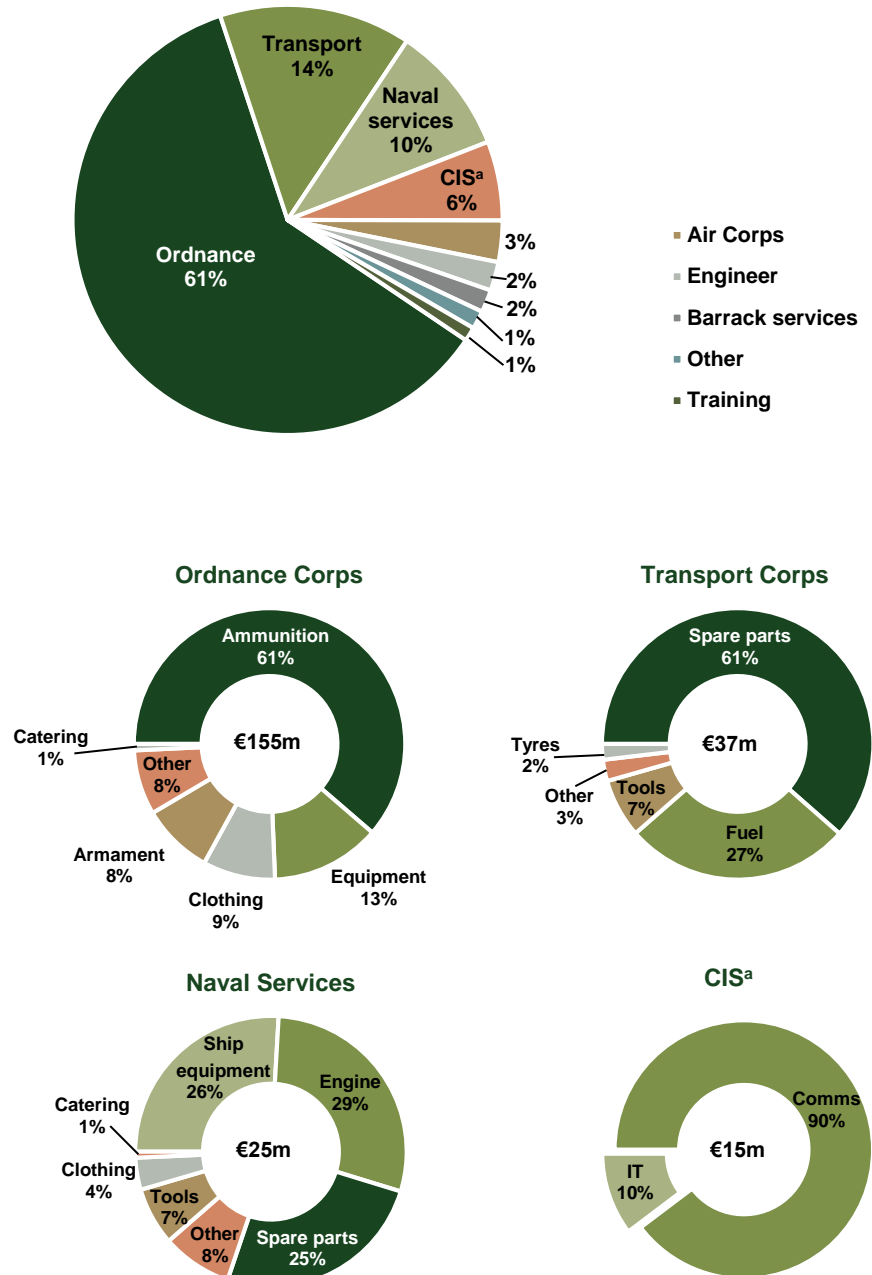
Source: Vote 36 Defence appropriation accounts 2012 – 2022

Note a The increase in inventory held at the end of 2022 was primarily due to a significant purchase of ammunition in late 2022 and increased fuel holdings.

**12.6** The Department stated that a significant array and quantity of stores are held by the Defence Forces to ensure that ongoing operational requirements are met and that appropriate stocks are in place to meet contingency requirements in line with the roles of the Defence Forces as set out by Government.

**12.7** At the end of 2022, almost 61% (by value) of total military stock was held by the Ordnance Corps (see Figure 12.2).<sup>1</sup> A further breakdown of stock holdings for the four Corps with the largest amount of stock (by value) is also shown in Figure 12.2.

**Figure 12.2 Military stocks by Corps and by type, 31 December 2022**



<sup>1</sup> The Ordnance Corps provide technical support to the Defence Forces for the procurement, storage, distribution, inspection, maintenance, repair and disposal of all items of ordnance related equipment. This ranges from small arms to anti-aircraft missiles, from personal protective equipment to the uniforms worn by military personnel.

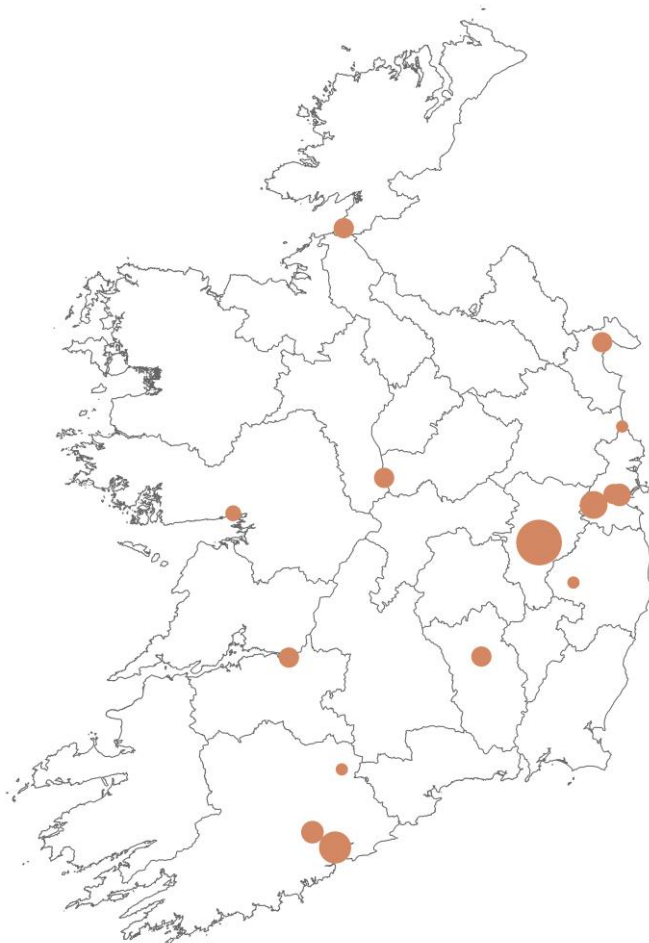
Source: Department of Defence  
 Note: a CIS — Communications and information services.

- 12.8** Stock is recorded on the inventory module of the Department's management information framework system (MIF).<sup>1</sup> All stock items have an individual Department item code which can be used to identify quantities of stock held. The Air Corps has a separate system for recording its stock — the Aircraft Maintenance Management System (AMMS).<sup>2</sup>
- 12.9** The examination team had 'view-only' access to the detailed listings of stock held on the MIF, and this was sufficient for examination purposes. The Department stated that it and the Defence Forces place a very strong emphasis on security and have comprehensive policies and procedures in place. It further noted that there are a substantial number of security items held in stores (including weapons, ammunition and explosives) and that access to this information is strictly controlled.

### Stock locations

- 12.10** Around 70% of the Defence Forces stock is held in stores in Dublin, Kildare and the surrounding areas; 20% is held in stores in Cork; and around 10% in stores throughout the rest of the country and overseas (see Figure 12.3).

**Figure 12.3 Location of main military stores<sup>a,b</sup>**



1 The Oracle eBusiness Suite (eBS) sits within the MIF. The eBS contains modules which include inventory, purchasing, fixed assets and asset maintenance. The eBS is used by Defence Forces personnel to electronically record transaction details involving the primary functions of a military stores account i.e. the procurement, storage and distribution of stores items.

2 Both stock figures are combined for the purposes of the annual appropriation account.

Source: Department of Defence

Notes: a The size of the circle reflects the concentration of stock (by value) in the location.  
b Excludes stock held overseas.

## Implementation of inventory review report recommendations

**12.11** Following the finalisation of the Dunning report, an implementation group was set up in July 2014 to oversee the implementation of the report's 27 recommendations.<sup>1</sup> Five fundamental recommendations from which all other recommendations emanated were identified and ranked in order of priority

- introduction of a stock management policy; and in particular the identification of minimum and maximum levels of inventory holdings
- development of a clearly defined disposal policy
- publication of a co-ordinated annual report by the Department and the Defence Forces
- addressing eBusiness Suite (eBS) capabilities
- a clearly defined timeframe for implementation.

**12.12** In late May 2015, the implementation group reported on the outcome of its work and assessed the progress made in the implementation of the five fundamental recommendations.<sup>2</sup> Based on a review of the group's report, it was not clear to the examination team what level of implementation had been achieved by May 2015, as a number of actions were categorised as 'ongoing' and target delivery dates for the implementation of all recommendations were not evident.

**12.13** Responsibility for implementing the recommendations then passed to a number of committees in the Department, but no specific responsibility was assigned for monitoring the implementation progress. The Department has stated that, as at June 2023, 21 of the 27 recommendations included in the Dunning report had been fully implemented (see Annex 12A) and that implementation of the remaining (six) recommendations was ongoing (see Figure 12.4).

<sup>1</sup> The group comprised staff at a senior level from the Department and the Defence Forces.

<sup>2</sup> *Report on the implementations and conclusions of the Joint Implementation Group – on the Report of Inventory Management in the Defence Forces (May 2014).*

**Figure 12.4 Dunning report recommendations yet to be fully implemented as at June 2023**

Recommendation	Status	Annex 12A reference
<b>High priority:</b> A new Defence Forces equipment plan should be finalised as a matter of urgency, including work on the reclassification of certain Defence expenditure, for example, reclassify certain stock as assets.	The equipment plan has been put in place. While a large part of the codification project has been completed, the remaining elements have been paused pending completion of the eBS upgrade project.	2
<b>Medium priority:</b> Review existing inventory management structures and storage arrangements.	This is ongoing. The implementation of the Commission on the Defence Forces report (published in February 2022) is likely to have an impact on the inventory management structures and storage arrangements.	4
<b>High priority:</b> Agree clear inventory management targets and outcomes.	An updated stock management policy covering the period 2023 to 2025 is currently being implemented and this will provide further guidance on establishing targets including key performance indicators.	6
<b>Medium priority:</b> The eBS must be augmented as necessary to ensure real time and accurate reporting on all relevant information. Strong consideration to be given to incorporating the AMMS into the eBS.	Insight software reporting has improved the reporting provided by the eBS. While AMMS still remains outside the eBS, closing inventory information has been generated on a monthly basis since 2021 and recorded in the eBS.	12
<b>Medium priority:</b> Various projects relating to cleaning up codes should continue and be finalised urgently. Rationalise the number of category and item descriptions.	Most of the data cleansing and codification process has been completed. It is currently paused due to the ongoing eBS upgrade project. The reclassification of assets is being evaluated in the context of the implementation of central government accounting standards and accrual accounting developments.	23
<b>Medium priority:</b> The Defence Organisation should review its strategy for integrating information and communications technology (ICT) into the Defence Forces supply chain to maximum leverage of ICT capabilities to underpin efficient performance across the supply chain. <sup>a</sup>	Implementation ongoing including liaison with the Office of Government Procurement in respect of shared data. Financial Management Shared Services (FMSS) roll out will further enhance developments.	27

Source: Department of Defence and Annex 12A

Note: a The Defence Organisation comprises the Department of Defence and the Defence Forces.

<sup>1</sup> The military store accounts are the inventory accounts which are recorded on the Management Information Framework (MIF) system. They are known as sub-inventories (SIs).

<sup>2</sup> Stock items are referred to as inventory items on the Defence Forces Logistics Management System.

## Management of stock

**12.14** There are 383 individual store accounts on the MIF system which hold records on both fixed assets and stock.<sup>1,2</sup> The range and value of the items held in each store account can vary. At the end of 2022, the largest individual account held €87 million of stock or 34% of the overall stock value. Half the stock value was accounted for in just four (1%) of the store accounts. At the end of 2022, there were over 60 (16%) individual store accounts where the total stock value was less than €10,000. However, the Department stated that this has reduced to less than 10% of store accounts as at May 2023.

- 12.15** The Department stated that a joint Department/Defence Forces group, the *Organisation and Sub-Inventory Working Group*, was set up in 2020 to undertake a review of the stores set-up, including the rationale governing locations and the arrangements for the management of stores; and to make recommendations on the most optimal approach.
- 12.16** The group reported in 2021 and noted that the number of accounts was directly related to the organisation and structure of the Defence Forces. It recommended a small reduction in the number of accounts and a reconfiguration and renaming of other accounts. However, the recommendations of the group have not been implemented.
- 12.17** As an alternative to annual stock takes, cycle counts are used in the bigger stores and in the Air Corps as a method of stock management. These counts allow stores to continue to operate, without the need to close stores to undertake stock takes. In a cycle count, the MIF system generates a random sample of stock codes to be counted and confirmed that day. Where the actual quantity is different to that recorded on the system, this is highlighted on the MIF system for investigation.
- 12.18** Under contracts with some of its suppliers, the Air Corps facilitates the holding of stock of proprietary aircraft parts by the suppliers at its Baldonnell base. An employee of the supplier manages the stock on site. Such stocks are not included in the stock valuation, and are only accounted for at the point of purchase.

### **Classification of stock**

- 12.19** All items held in the military store accounts are classified as either a fixed asset or a stock item. Fixed assets are items that are expected to generate a benefit to the Defence Forces for a period greater than one year and generally have a purchase value in excess of €1,000. The Department has a derogation from the Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDPDR) which allows it to record items valued as low as €1,000 as assets.<sup>1</sup>
- 12.20** Items classified as assets are allocated a serial number which is recorded on the MIF system, and this allows the movement of each asset item to be tracked. The recording of items as assets (e.g. items of interest from a security perspective) facilitates increased tracking of these items. All small hand-held weaponry is classified as fixed assets.
- 12.21** Items that are expendable by nature are classified as stock. The engine of an airplane or a tank can be included as a stock item even though the value can be substantial — for example, a Mowag armoured vehicle part is included in stock at €280,000. Conversely, smaller security related items can be included as fixed assets for security and monitoring purposes even if below the purchase value threshold. By comparison, capital spare parts are recognised by defence departments in other jurisdictions as fixed assets in accordance with international accounting practices (e.g. United Kingdom (UK) Ministry of Defence).<sup>2</sup>
- 12.22** The Department stated that it complies with the definitions of stock and fixed assets set out in DPENDPDR's guidance for the annual appropriation accounts.
- 12.23** The examination team identified some items that were incorrectly classified — for example, in one store, three welding machines (valued at €12,570) in use to carry out repairs were recorded as stock rather than machinery.<sup>3</sup>

<sup>1</sup> Under the derogation, the normal threshold (€10,000) for recording items as assets across central government departments and offices is reduced to €1,000.

<sup>2</sup> UK Ministry of Defence Annual Report and Accounts 2021-22.

<sup>3</sup> The value of the audit sample for this store was €95,000.

- 12.24** The examination team also identified items (e.g. a hydraulic press and a circular saw) that although in use, were still included as stock in the store account records. The Department stated that such items are maintained on the inventory system for stewardship and safeguarding purposes. By comparison, inventories are only recognised on the UK Ministry of Defence's balance sheet from the point of acquisition to the point of issue for use.
- 12.25** The Dunning report noted the link between stock and fixed assets and the ongoing work on the coding of items to ensure they are properly classified and consistently valued. The report (in 2014) recommended, *inter alia*, that the various ongoing projects in this area be finalised urgently. The examination team found that this work remained ongoing.

### Stock valuation

- 12.26** Up to 2022, varying practices were used by the Department to value the items held in stock as disclosed in the statement of accounting policies and principles adopted for the Defence vote. The Department stated that all military stock has been valued at average cost in its 2022 appropriation account.
- 12.27** Military stock is valued at average purchase cost of the items held, calculated on a store-by-store basis. An overall average item cost across all stores is not calculated. Any movement of stock items between stores may lead to a re-calculation of the average cost in the receiving store. As a result, the same items may be held at different values across stores, due to being purchased or transferred into the store at different prices.
- 12.28** The average cost valuation methodology was identified by the Department as the most suitable inventory costing methodology for military stock and has been in use since 2006. It was re-confirmed as the most appropriate methodology in 2017, in the context of the migration to FMSS.<sup>1</sup>
- 12.29** Prior to 2022, Air Corps stock was valued at the original purchase price, regardless of whether a further purchase of the stock item occurred, potentially at a different price. The AMMS system retained the original purchase price and this was used for valuation purposes. The Department stated that a new tool has been implemented which allows the generation of the closing inventory valuations for the Air Corps stock on an average cost basis.

### Stock levels

- 12.30** In January 2015, in response to the Dunning report recommendations, a stock management policy was adopted by the Defence Forces to cover the period 2015 to 2020. This policy remained in place until end May 2023, when a new policy covering the period 2023 to 2025 came into effect.
- 12.31** The current policy, similar to the 2015 policy, includes a control framework for stock 'owners' and custodians to determine how to categorise the stock level held for each item (see Figure 12.5).
- 12.32** The 2015 policy envisaged that numerical values i.e. minimum and maximum numbers for each item would be allocated at each of the stock levels.<sup>2,3</sup> With the exception of values for certain ammunition noted on the naval ship visited, the examination team found that minimum and maximum stock levels were not in place for stock items.<sup>4</sup>

<sup>1</sup> This methodology is also adopted by Defence departments in the United Kingdom and Australia.

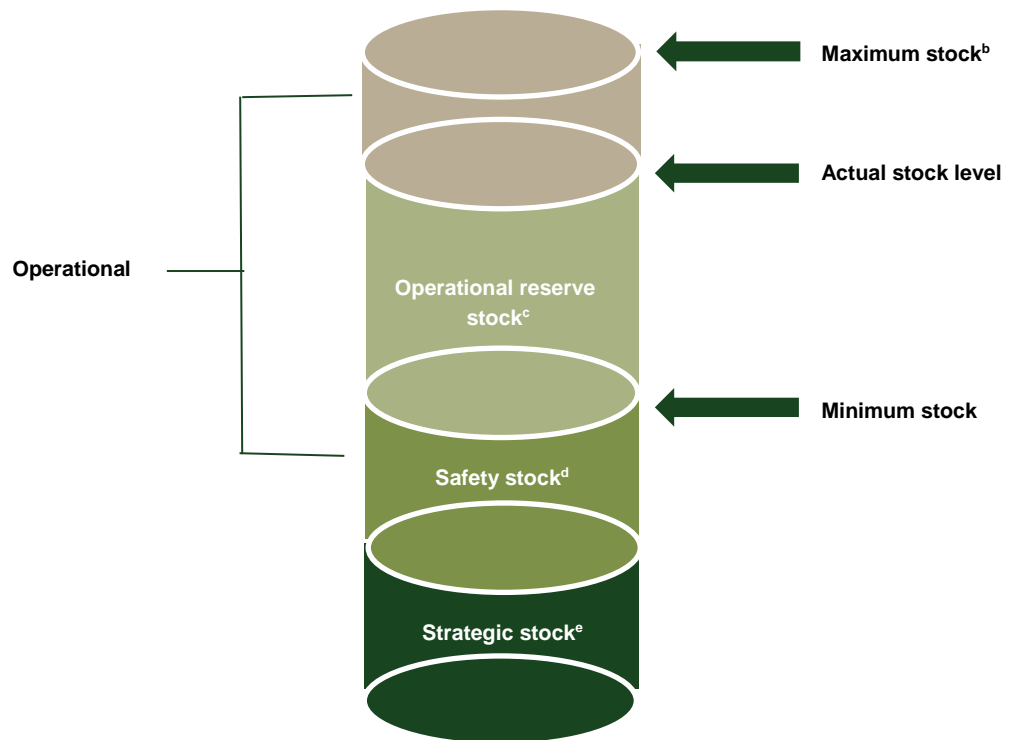
<sup>2</sup> The 2015 policy was in place when the examination team carried out its fieldwork.

<sup>3</sup> This responsibility rests with supply directors who are the stock owners and holders of the Department's devolved supply subheads.

<sup>4</sup> Haulbowline (Cork) — LÉ Samuel Beckett.

**12.33** Between 2014 and 2015, the Communications Information Services (CIS) carried out an analysis of all aspects of its stock movements including inventory turnover, lead-in times and usage rates. It was found that minimum/maximum planning was not fit for purpose for many CIS stock items due to elongated lead-in times, the extension of economic life beyond the manufacturer's life and the discontinuation by manufacturers of some spare part production lines.

**Figure 12.5 Stock framework – stock control measure<sup>a</sup>**



Source: Department of Defence

- Notes:
- a All stock holdings must be managed through the use of appropriate stock control measures.
  - b Maximum stock reflects the level of stock which should not be exceeded, except in extraordinary circumstances or due to an extraordinary event.
  - c Operational reserve stock is the stock that is consumed on a day to day basis.
  - d Safety stock is a buffer between operational reserve stock and strategic stock.
  - e Strategic stock is stock which is essential for the Defence Forces to maintain its capability.

**12.34** The Defence Forces stated in July 2022 that while minimum/maximum stock level planning was previously investigated and reviewed at a strategic level for use within the Defence Forces Logistics Management System, this initiative was paused due to staff shortages and turnover of staff in key roles.

**12.35** The updated stock management policy requires each Corps to implement the relevant stock control measure, as appropriate, on the stock management system specific to its stock control requirements, within twelve months of the eBS upgrade, which is scheduled for completion by the end of 2023.

### **Key performance indicators**

- 12.36** The current Defence Forces stock management policy, similar to the 2015 policy, sets out that it is essential that key performance indicators (KPIs) are set by each supply director i.e. the stock owners. The policy suggests examples of three KPIs which could be used
- inventory turnover rate
  - percentage of incomplete orders
  - average order cycle time.
- 12.37** The 2015 policy further set out that the (example) KPIs should be applied on an individual department number basis i.e. individual item codes and that grouping stock items together would skew data and should be avoided.
- 12.38** Information on KPIs requested as part of the examination team's onsite visits was not provided. At the time, the Defence Forces stated that it had not yet proved practical to implement the KPIs, mainly due to the large variation in stock types across different Corps, high staff turnover and the lack of analytic software. While there were instances where the (example) KPIs were in use, this was on an informal basis (e.g. the CIS main technical stores).
- 12.39** Under the 2023 policy, Corps are required to identify, implement and report quarterly on stock management KPIs, commencing at the end of Q3 2023.

### **Stock variance**

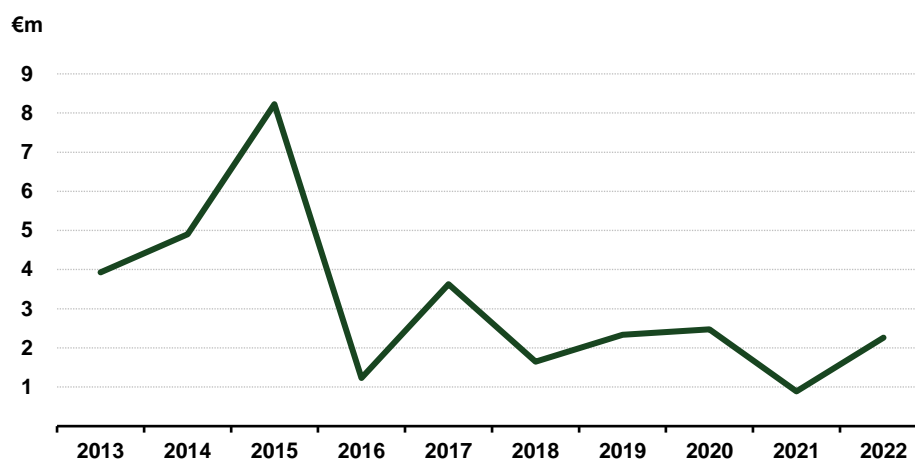
- 12.40** There is an ongoing variance between the valuation of stock in the inventory module of the MIF and the Department's accounting system. This variation arose over time following the implementation of the current MIF system in 2006. An internal exercise undertaken in 2012 identified a number of key issues contributing to the variance: these were software bugs, back-dated transactions, impaired codes, rounding and mis-categorisation.<sup>1</sup>
- 12.41** The most significant cause of the variance, in monetary terms, was due to incorrect item codes for some stock items i.e. mis-categorisation. A final report by the project team in March 2014 noted that the variance had reduced from around €14 million to just under €400,000. At the end of 2022, the difference was €76,000.
- 12.42** The Department stated that as there was no evidence of the issue recurring following a software upgrade, it has accepted that the issue was resolved. The Department noted that there are some remaining differences but the impact is deemed not to be material, and the discrepancy balance is relatively stable.

### **Obsolete stock**

- 12.43** Potentially obsolete stock is generally identified during stock takes. However, to be classified as obsolete, the stock must first be reviewed by a Board of Survey.<sup>2</sup>
- 12.44** To improve transparency in the stock management process, the Dunning report recommended that the value of stock written off in the period be disclosed in the financial statements. Since 2013, this information has been disclosed in the Department's annual appropriation account (see Figure 12.6).

<sup>1</sup> A project team comprising departmental and Defence Forces staff was established to investigate the stock value variance.

<sup>2</sup> A Board of Survey comprises three members of the Defence Forces appointed to report on the condition of the stock deemed to be obsolete. The Board determines whether the stock in question is serviceable, repairable, surplus to requirements or obsolete.

**Figure 12.6 Value of stock write offs, 2013 – 2022**

Source: Vote 36 Defence appropriation accounts 2013 – 2022

- 12.45** The examination team's visit to the Naval Base found that while a ship with store accounts is connected to the stock management system, transactions may also be maintained separately on an excel spreadsheet, due to connectivity issues.<sup>1</sup>
- 12.46** The examination team also noted that a decision had been made to withdraw three ships from service (LÉ Orla, LÉ Ciara and LÉ Eithne) and that significant stock was held at the Naval Base related to the servicing and upkeep of these ships.<sup>2</sup>
- 12.47** The examination team was informed that due to the decision to withdraw the ships from service, a sizable portion of the stock held in the naval main store would now be considered obsolete.<sup>3</sup> Also, the closure of the store accounts allocated to the ships and the disposal of the stock items would form part of the decommissioning process.
- 12.48** The Department stated that the stock was required to ensure the ships were kept to a seaworthy standard, for safety and operational reasons, until the decision was made to withdraw them from service. It stated that following the decision, there continues to be an obligation to maintain these ships to a seaworthy standard prior to their disposal.<sup>4</sup>
- 12.49** Stock items such as ammunition have a shelf life. This stock can be slow moving as only a portion of ammunition is used annually for training and service requirements. The Department stated that the Defence Forces must maintain strategic and safety ammunition stock for contingency purposes in respect of the roles assigned to them by Government.
- 12.50** When items are considered obsolete, they are generally disposed of (once approved by a Board of Survey) and removed from the stock management system. There can be a delay between the identification of obsolete items and the completion of a Board of Survey. A disposals policy was implemented in response to the Dunning report and revised Defence Forces regulations and new procedures have been put in place.<sup>5</sup> However, there are ongoing issues regarding disposals, mainly the timely disposal of surplus/obsolete items.

1 The system is subsequently updated once connectivity improves.

2 The three ships were ceremonially decommissioned by the Minister of Defence on 8 July 2022.

3 The actual level of obsolete stock won't be known until the Board of Survey has completed its analysis.

4 The Department stated that the ships may be sailed to a disposal facility following the required Board of Survey.

5 The Department stated that the revised regulations were signed by the Minister in November 2022.

- 12.51** Following concerns raised regarding an ordnance store account and stock items found outside of a military location which had previously been written off for disposal, the Department's internal audit unit carried out an audit of a specified store in November 2021. The audit found that there were ordnance component parts in the store for disposal but although they had been removed from the stock system, they had yet to be disposed of.
- 12.52** The audit made a number of recommendations, which included: the retention of all stocktaking documentation; a full audit trail for disposals; stock to be destroyed/ disposed of immediately following the Board of Survey; and having a secure area for stock awaiting a Board of Survey determination.
- 12.53** The Department has stated that since the internal audit, significant actions have been taken to address these issues, including putting a contract in place for metal shredding; greater security for items to be disposed of; and enhanced procedures and controls for the store in question.
- 12.54** In 2021, the Defence Forces set up a group to review the Board of Survey process. The group reported in early 2022, recommending changes in the process which included the requirement for Board members to certify the implementation of the Board's recommendations.
- 12.55** In November 2022, revised disposal regulations were introduced which include the requirement for two Board of Survey members to certify that they have witnessed the disposal of items recommended for disposal.

### ***Good practice***

- 12.56** The examination team identified instances of transferrable good practice in the stock management processes used by the Department of Defence. These include
- the MIF system, which allows the Defence Forces to identify if a required stock item is held in another location and to immediately organise its transfer
  - cycle counts which facilitate the ongoing monitoring and counting of stock without closing a store for an extended period to facilitate stock takes
  - the use of vendor-managed stocks by the Air Corps which promotes efficient inventory management processes and transfers the stock management holding risk to suppliers
  - lower stocks of spares required to meet needs as personnel with specialist skills can carry out repairs on assets and can also determine if a stock item held is obsolete
  - transparency in the stock management process by disclosing stock written off in the annual appropriation account.

## Conclusions and recommendations

- 12.57** Military stocks held at the end of 2022 totalled €254 million. Stock is held in a number of military stores across the country and transactions in these stores are recorded in over 380 store accounts on the Department's management information framework system.
- 12.58** A formal review of inventory management in the Defence Forces was carried out in 2014, which resulted in the Dunning report. The report included 27 recommendations across a number of areas. As at June 2023, six of the recommendations had yet to be fully implemented.
- 12.59** Work on data cleansing and correct classification of items stored by the Defence Forces has been ongoing for a number of years. The Dunning report recommended that ongoing projects in this area be finalised urgently. The Department has yet to complete its work in this area.

### Recommendation 12.1

The full implementation of the remaining Dunning report recommendations should be actioned in a timely manner. An implementation plan with delivery targets and milestones should be put in place.

#### Accounting Officer's response

Agreed

21 of the 27 recommendations in the Dunning report have been fully implemented. A considerable amount of work has been undertaken on the other six recommendations, with most of them significantly advanced towards full implementation, as set out in Figure 12.4 above. Since the Dunning report, a number of issues have arisen that have impacted on the implementation of these recommendations, including the proposed move of Defence to FMSS (first scheduled for 2018) and the report of the Commission on the Defence Forces. The Department and the Defence Forces will examine the remaining recommendations with a view to putting in place a finalisation plan.

#### Timeline for implementation

The Department and the Defence Forces will examine the remaining recommendations and put a finalisation plan in place by Q1 2024.

- 12.60** The examination team identified some items that were incorrectly classified — for example, items that although in use, were still included as stock in the store account records.

### Recommendation 12.2

The Department should carry out an evaluation of the current data cleansing and codification process, including the classification of assets to identify the factors giving rise to ongoing misclassification; and update the related guidance to ensure that stock and assets are correctly classified in future and that stock issued for use is removed from store account records accordingly.

**Accounting Officer's response**

Agreed

Significant work has been completed on the data cleansing and codification project. It has been paused for the past year due to the ongoing upgrade of the Department of Defence's integrated financial system (including inventory and fixed asset modules). Once the new system goes live, work on the project will resume. However, the project will also need to take account of the imminent central Government accounting standards, which are expected to be released before the end of the year. These new standards will include new definitions and guidelines in relation to inventory and fixed assets. The Department will ensure that these guidelines are implemented.

**Timeline for implementation**

This recommendation will be implemented by the end of 2024.

- 12.61** In January 2015, in response to the Dunning report recommendations, a stock management policy was adopted by the Defence Forces to cover the period 2015 to 2020. This policy remained in place until May 2023.
- 12.62** Elements of the 2015 policy, such as defining stock numbers as part of the stock control framework and the use of key performance indicators (KPIs), have yet to be implemented.
- 12.63** A new stock management policy, covering the period 2023 to 2025, came into effect at the end of May 2023. The new policy requires stock control measures to be implemented (whereby the level of stock held for each item is considered and managed) within twelve months of a planned system upgrade which is expected to be completed by the end of 2023. The policy also requires that KPIs are identified, implemented and reported on quarterly starting at the end of Q3 2023.

**Recommendation 12.3**

Periodic (e.g. annual) reviews should be undertaken to ensure that the policy requirements are being actioned as intended and to ensure that all elements of the policy continue to suit the current and future needs of the Defence Forces.

**Accounting Officer's response**

Agreed

This recommendation is being implemented. The Defence Forces stock management policy has been reviewed and a new policy has recently been put in place for the period 2023-2025. Corps Directors, as key stakeholders, will be required to submit regular reports on their implementation of the policy.

**Timeline for implementation**

This recommendation is being implemented and will be fully in place by the end of 2024.

- 12.64** Stock is held by the Defence Forces in over 380 store accounts. The largest account holds €87 million worth of stock, with half the stock value spread across four accounts. There are a large number of accounts which hold a low value of stock, with associated security risks and costs.

- 12.65** A review of the stores set-up, including the rationale governing locations and the arrangements for the management of stores was undertaken in 2020/2021. The review found that the number of accounts was directly related to the organisation and structure of the Defence Forces and recommended a small reduction in the number of accounts; and a reconfiguration and renaming of other accounts. However, the recommendations have yet to be implemented.

#### **Recommendation 12.4**

The recommendations arising from the review of the stores set-up should be actioned on a timely basis. Also, the need to maintain a large number of low value store accounts should be assessed periodically.

#### **Accounting Officer's response**

Agreed

These recommendations have not been implemented as yet, as further changes in the structure and organisation of the Defence Forces, and the army in particular, are likely due to the implementation of the recommendations of the Commission on the Defence Forces. Once greater clarity is available on the proposed structure for the army, this issue will be revisited.

#### **Timeline for implementation**

The timeline for the implementation of this recommendation is unclear as it will be impacted by the review of the structure of the Defence Forces recommended by the Commission. The recommendation will be implemented within a year of the finalisation of the review.

- 12.66** Up to 2022, an inconsistent approach was adopted in valuing stock across the Defence Forces. Military stock was valued at average cost on a store by store basis, while Air Corps stock was valued at the original purchase price. This changed in 2022 and all military stock is now valued at average cost and this is reflected in the Department's 2022 appropriation account.
- 12.67** In response to the Dunning report, improvements have been made in the reporting of obsolete stock written off, as part of the annual appropriation account. However, instances have been identified whereby stock items have been written off the management information framework system but such items have not actually been disposed of in a controlled way.
- 12.68** Internal audit undertook a review of a specified store in November 2021, where items already written off the system had not been physically disposed of. The audit recommended, *inter alia*, the need for: retention of all stocktaking documentation; a full audit trail for disposals; stock to be destroyed/disposed of immediately following a Board of Survey determination; and having a secure area for stock awaiting a Board of Survey determination.
- 12.69** Revised disposal regulations were introduced in November 2022 which include the requirement for two (of the three) Board of Survey members to certify that they have witnessed the disposal of items recommended for disposal.

**Recommendation 12.5**

A more widespread review of the stores should be undertaken to establish the underlying factors impacting the timely, physical disposal of all stock items and an action plan put in place to address the factors identified.

**Accounting Officer's response**

Agreed

A review was undertaken by the Department's internal audit unit of the main store where items already written off the system had not been physically disposed of in a timely manner. This review identified a number of reasons for such delays.

In addition, a formal review of the Board of Survey process has been undertaken. As a result, the specific regulations governing Boards of Survey have been amended to address these procedures, with a revised Defence Forces Regulation (DFR L7) signed by the Minister on 10 November 2022.

A broader review of stores will be undertaken as recommended. This will build on the findings of both the internal audit review and the review of the Board of Survey process.

**Timeline for implementation**

This recommendation will be implemented by Q2 2024.

**Recommendation 12.6**

An additional control should be introduced, whereby the disposal of sensitive military items is formally certified on a timely basis by members of the relevant Board of Survey before these items are written off the stock management system. The disposal regulations should be updated to reflect these requirements.

**Accounting Officer's response**

Agreed

This recommendation has already been largely implemented.

In relation to this recommendation that 'the disposal of sensitive military items is formally certified by members of the Board of Survey before these items are written off the stock management system', current procedures require that all items are held on the stock management system until properly disposed of. Explicit instructions to this effect are currently being considered in the context of the revision of Defence Forces Order 01/2014 – *Accountancy Procedures for Military Stores and Workshops*.

**Timeline for implementation**

This recommendation will be implemented by Q2 2024.

## Annex 12A Assessment of implementation of the 2014 Dunning report recommendations

Key recommendations <sup>a</sup>	Priority <sup>c</sup>	May 2015	Dec 2016	June 2023
<b>Overarching priority<sup>b</sup></b>				
1. A small dedicated fulltime team of civilian and defence force personnel should be established with a specific remit to drive implementation of the review recommendations.	High	●	●	●
2. A new Defence Forces equipment plan should be finalised as a matter of urgency, including work on the reclassification of certain Defence expenditure, for example, reclassify certain stock as assets.	High	●	●	●
3. New stock management and disposal policy statements to be agreed.	High	●	●	●
4. Review existing inventory management structures and storage arrangements.	Medium	●	●	●
5. The annual resource allocation by subhead and proposed inventory oversight processes should be more clearly aligned.	Medium	●	●	●
6. Agree clear inventory management targets and outcomes.	High	●	●	●
7. Keep all elements of lifecycle of inventory under review and monitor linkages.	Medium	●	●	●
8. Department of Defence and the Defence Forces to agree on an implementation blueprint for the recommendations after deciding upon their position regarding the review.	High	●	●	●
<b>Procurement</b>				
9. Procurement process should be subject of more centre led strategic coordination between the Department and the Defence Forces led by the proposed new team.	High	●	●	●
<b>Management</b>				
10. The individual Stock Policy Statements for all Army Corps, Air Corps and Naval Service should be approved by the High Level Planning and Procurement Group (HLPPG) and put in place as a matter of urgency.	High	●	●	●
11. The Obsolete and Slow Moving Stock Board should intensify its work and report on its work to the HLPPG with a focus on high value stock which has not moved for some time.	Medium	●	●	●

Key recommendations <sup>a</sup>	Priority <sup>c</sup>	May 2015	Dec 2016	June 2023
12. The eBS must be augmented as necessary to ensure real time and accurate reporting on all relevant information. Strong consideration to be given to incorporating the AMMS into the eBS.	Medium	●	●	●
13. Corps Directors should attend regularly at meetings of the new HLPPG Sub-Group on inventory management and disposal.	Medium	●	●	●
14. The Defence Forces should implement greater cross-functional communication with respect to inventory management.	High	●	●	●
<b>Disposal</b>				
15. HLPPG to be much more active and disposals should be part of the remit of the proposed military/civilian team. A subgroup of the HLPPG on inventory management and disposal should be established.	High	●	●	●
16. Formal process of identification of surplus inventory should be streamlined with greater use of the technical officer process as distinct from the Board of Survey.	Medium	●	●	●
17. Quarterly progress reports on the Boards of Survey which have been convened should be prepared by Defence Forces Logistics Branch and be submitted to the proposed new team and onto the HLPPG sub-group.	Medium	●	●	●
18. Boards of Survey should operate and complete their work within a specified time period set out by the HLPPG sub group.	High	●	●	●
19. All proposed write offs of surplus inventory on foot of Boards of Survey or otherwise, should be compiled centrally by the proposed new team and notified to the relevant departments.	High	●	●	●
20. Disposal by sale of surplus items of value should be the preferred option. A policy in this regard should be agreed with the relevant departments, including the Department of Foreign Affairs and the Department of Public Expenditure, National Development Plan Delivery and Reform.	High	●	●	●

Key recommendations <sup>a</sup>	Priority <sup>c</sup>	May 2015	Dec 2016	June 2023
<b>Valuation</b>				
21. The issue of whether inventory in regional locations has in fact been used or consumed should be urgently assessed.	High	●	●	●
22. The accounting policy in relation to the valuation of inventory to be reviewed with DPENDPDR and the Office of the Comptroller and Auditor General.	Medium	●	●	●
23. Various projects relating to cleaning up codes should continue and be finalised urgently. Rationalise the number of category and item descriptions.	Medium	●	●	●
<b>Reporting</b>				
24. A publication encompassing inventory should be produced annually (with Estimates publication). The new inventory publication should be consistent with the relevant appropriation account figures.	Medium	●	●	●
25. Publication should be coordinated by the proposed dedicated team and approved by the HLPPG, the two Finance Branches and the Senior Management Committee should also review and approve the annual Defence Forces estimates publication.	Medium	●	●	●
26. Table in appropriation account on year on year movement in inventory should include the specific figure for write-offs.	Medium	●	●	●
<b>ICT capability</b>				
27. The Defence Organisation should review its strategy for integrating information and communications technology (ICT) into the Defence Forces supply chain to maximum leverage of ICT capabilities to underpin efficient performance across the supply chain.	Medium	●	●	●

● Implemented ● Partially implemented

Source: Department of Defence

Notes: a The detail included is an abridged version of the full recommendations. Many of the recommendations are interrelated and not mutually exclusive.

b Recommendation category of the review.

c Priority ranking.