



HOUSE OF COMMONS  
CANADA

**CHAPTER 5, "ACQUIRING MILITARY VEHICLES  
FOR USE IN AFGHANISTAN," OF THE FALL 2009  
REPORT OF THE AUDITOR GENERAL OF  
CANADA**

**Report of the Standing Committee on  
Public Accounts**

**Hon. Joseph Volpe, MP  
Chair**

**OCTOBER 2010**

**40th PARLIAMENT, 3rd SESSION**



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# **THE STANDING COMMITTEE ON PUBLIC ACCOUNTS**

has the honour to present its

## **NINETEENTH REPORT**

Pursuant to its mandate under Standing Order 108(3)(g), the Committee has studied Chapter 5, “Acquiring Military Vehicles for Use in Afghanistan,” of the Fall 2009 Report of the Auditor General of Canada and has agreed to report the following:

## INTRODUCTION

In March 2006, as part of the International Security Assistance Force (ISAF), Canada began operations in the Kandahar region of Afghanistan, assuming responsibility, along with its coalition and Afghan partners, for the stabilization and security of the area. The deployment of Canadian Forces to Kandahar has increased the risk to personnel posed by threats such as landmines and improvised explosive devices (IEDs). In order to help reduce these risks to Canadian troops without compromising the success of the mission, it has been essential to rapidly acquire new equipment, particularly heavily-armoured and blast-resistant vehicles, which offer better protection against IEDs.

National Defence has the overall responsibility for setting military requirements for the acquisition of military equipment and managing acquisition projects, while Public Works and Government Services Canada (PWGSC) manages the contracting process. Since the Treasury Board of Canada's *Policy on the Management of Projects* requires all federal departments to have an internal project management framework, National Defence has its own project approval guidelines.

In an audit included in its Fall 2009 Report, the Office of the Auditor General (OAG) examined four urgent projects, each costing more than \$100 million, to acquire military vehicles that would improve operational capability and the protection of Canadian soldiers in Afghanistan.<sup>1</sup> The projects included armoured patrol vehicles (RG-31), armoured heavy support vehicle systems (AHSVS), light armoured vehicles with a remote weapon station (LAV RWS) and replacement tanks (Leopard 2 Tank).<sup>2</sup> In conducting the audit, the OAG took into account the unique time pressures linked to the purchases resulting from the need to ensure the safety of Canadian Forces personnel and the successful execution of operations.

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<sup>1</sup> Auditor General of Canada, Fall 2009 Report, *Chapter 5 - Acquiring Military Vehicles for Use in Afghanistan*.

<sup>2</sup> Upon request, the Department of National Defence provided the Committee with a chart outlining the approval steps and respective dates for each of the projects.

In this audit, the OAG specifically looked at how National Defence managed the projects to ensure that acquisitions met federal policies related to project management and that the vehicles purchased would meet the Canadian Forces' urgent operational needs. The audit also looked at how National Defence and PWGSC work together to ensure that the contracting for the projects complied with government policies. Lastly, the OAG examined the analysis and challenge role played by the Treasury Board of Canada Secretariat (the Secretariat) when project and contract proposals were submitted for approval.

As the timely acquisition of military equipment has serious consequences for the safety of Canadian Forces' personnel and the success of the mission in Afghanistan, the Public Accounts Committee held a meeting on the audit on 30 March 2010.<sup>3</sup> At the meeting, the Office of the Auditor General was represented by Sheila Fraser, Auditor General of Canada; Hugh McRoberts, Assistant Auditor General; and Jerome Berthelette, Assistant Auditor General. National Defence was represented by Robert Fonberg, Deputy Minister; Lieutenant-General Andrew Leslie, Chief of Land Staff; and Dan Ross, Assistant Deputy Minister (Materiel). Public Works and Government Services Canada was represented by François Guimont, Deputy Minister; and Terry Williston, Executive Director, Military Procurement, Land, Aerospace and Marine Systems and Major Projects Sector. The Treasury Board of Canada Secretariat was represented by John Ossowski, Assistant Secretary, International Affairs, Security and Justice.

## **STATUS REPORTS**

In order for the Canadian Forces to carry out their operations in Afghanistan in an effective and safe manner, National Defence and PWGSC have had to acquire new equipment that better protects against IEDs. In three of the four acquisition projects examined by the OAG, National Defence and PWGSC provided the Canadian Forces with urgently needed vehicles that National Defence determined met operational needs. During her opening statement to the Committee, the Auditor General noted that during her visit to Afghanistan she had the opportunity to see the acquired equipment and to

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<sup>3</sup> House of Commons Standing Committee on Public Accounts, 40<sup>th</sup> Parliament, 3<sup>rd</sup> Session, Meeting 6.



speak to the soldiers who use it on a daily basis.<sup>4</sup> The soldiers corroborated the findings of the audit indicating that the vehicles were meeting operational needs. However, the Committee is concerned that the acquisition of the fourth project, the LAV-RWS vehicles, slipped behind schedule and the vehicles were not delivered to Afghanistan until October 2009, two years later than originally planned and at a cost that was double what was first conveyed to the Secretariat.

For the two competitive processes that were examined in the audit, the OAG found that while both processes were managed in compliance with applicable contracting policies, none of the four projects were managed in accordance with National Defence's project approval guide. Most of the required documents were either not prepared, were without any justification, were prepared after the fact, or were deficient and thus of little value in helping to manage projects or in showing that project management met Secretariat requirements. Although the Committee acknowledges the urgency of the acquisitions and the complex challenge of acquiring military equipment in a short time frame, in his opening statement to the Committee, the Deputy Minister of National Defence was right to admit that urgency should never be looked at "as a licence to be sloppy in our processes."<sup>5</sup> Moreover, despite the urgent nature of the four acquisition projects, National Defence did not seek exemptions from Secretariat policies.

It is of particular concern to the Committee that at the time of the audit, National Defence did not have a separate process to deal with urgent operational requirements (UORs), such as the four audited vehicle purchases. Moreover, it gave no guidance on which of the many "required" elements of its current project approval guidelines could be abbreviated or even abandoned in urgent situations. In its audit report, the OAG recommended that National Defence take the opportunity to apply its experience from these projects to assessing the elements of the guide, to determine which elements

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<sup>4</sup> Meeting 6, 9:00.

<sup>5</sup> Meeting 6, 9:05.

may be safely modified or deleted in the face of expediency as well as whether some are needed at all regardless of urgency.

The audit did note that PWGSC and National Defence were able to work together effectively to meet urgent needs, for instance, through the use of integrated teams dedicated to the administration of the contracting process and the joint preparation of documents. As a result, the OAG recommended that National Defence and PWGSC examine the lessons learned in contracting for UORs that could be applied to help speed up the regular procurement process.

The findings of the audit did not just relate to processes. The audit also noted that some mistakes were made in the acquisition of the vehicles. For the tank replacement project, National Defence assumed that the Leopard 2 tanks were substantially similar to the Leopard 1 tanks that they would be replacing. However, it was later discovered that it would not be possible to install mine ploughs and bulldozer blades onto the Leopard 2 tanks, as originally intended, without significant modifications. Thus, several of the Leopard 1 tanks have remained in Afghanistan in order to provide this capability. Also, when the LAV RWS project was approved, National Defence believed that the vehicle was so similar to the LAV III vehicle that minimal training would be needed. However, it later became clear that a higher degree of training was required and of the 33 vehicles acquired, 15 have remained in Canada for training.

Both National Defence and PWGSC agreed with the OAG's recommendations and presented action plans to the Committee. The Auditor General commented favourably on the departments' plans. She said, "[W]e believe that these plans have the potential to address the issues raised in the chapter."<sup>6</sup> While PWGSC had implemented the OAG's recommendation by 30 October 2009, the timelines for most recommendations in National Defence's action plan extend to 2012. The Committee is concerned by this timeline because National Defence may continue to acquire urgently

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<sup>6</sup> Meeting 6, 9:05.

needed military equipment prior to 2012. The action plan is ambiguous about what steps National Defence will take in the meantime to ensure that UORs are well-managed. Thus, the Committee recommends:

#### **RECOMMENDATION 1**

**That National Defence clarify its action plan to ensure that it has measures in place as soon as possible to appropriately manage urgent operational requirements.**

In order to ensure that National Defence is making satisfactory progress in addressing the issues raised in the audit, the Committee believes that it is necessary to monitor National Defence's implementation of its action plan. The Committee recommends:

#### **RECOMMENDATION 2**

**That National Defence provide a status report to the Public Accounts Committee by 31 January 2011 on its progress in addressing the recommendations made by the Office of the Auditor General in Chapter 5 of the Fall 2009 Report; and that National Defence continue to provide annual status reports until all of the OAG's recommendations have been addressed.**

#### **URGENT ACQUISITIONS**

Under Treasury Board's *Policy on the Management of Projects*, all departments are required to have sound internal policies, guidelines, and practices for the identification, planning, definition, approval, and implementation of projects. National Defence has established its own project management framework that involves policy and procedural guidance on the approval process for projects, activities, and initiatives that require funding.

As National Defence did not have a separate process to deal with UORs, the OAG expected National Defence to have complied with the requirements of its project approval guide. However, as noted earlier, the audit found that most of the required documents were not prepared, or if prepared, they were deficient or prepared after the

fact. A lack of documentation means that it is difficult to assess on what basis senior management made their decisions and whether they had access to sufficient analyses to assist them in their decision-making.

In response to the audit, National Defence has recognized the need to develop a project management framework for UORs, and has released updated guidance on UOR acquisitions. The guidance outlines the minimum essential documentation required to support faster acquisition and clarifies key roles. National Defence intends to have implemented new project approval guidance with streamlined decision making processes by 2012. The Committee is encouraged that National Defence is working to address this issue, but it notes that the expected completion date is after the scheduled end of Canadian military activities in Afghanistan in 2011.

While National Defence is working on developing better guidance for UOR project management and acquisitions, the Committee is concerned that other departments may face their own urgent needs for project management and acquisition but not have the policies, procedures, and guidance in place to deal with them. PWGSC was the contracting authority for the acquisitions examined and thus shared responsibility for some aspects of the contracting process. PWGSC's Deputy Minister, Francois Guimont, told the Committee that his department had completed a lessons-learned exercise, and he outlined the lessons: they sought project and contract approval concurrently instead of sequentially; they used a mix of procurement tools, such as a phased approach to the request for proposal; they employed integrated teams with National Defence; and they used technology to collect and distribute information instantly. However, when asked whether PWGSC has a definition, policy, or criteria for urgent acquisitions, the Deputy Minister replied that they did not.<sup>7</sup>

The Committee acknowledges that National Defence's needs in this instance were somewhat exceptional and thus officials at National Defence and PWGSC had to do the best they could under difficult circumstances. However, the Committee believes

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<sup>7</sup> Meeting 6, 9:30.

that it is likely that other urgent requirements will occur from time to time within the federal government, and in urgent situations, it may not be possible to follow all the normal policies and procedures. It is nonetheless important that urgent projects and acquisitions be as well managed as possible under shortened timeframes. As PWGSC is the contracting authority for a large proportion of the federal government's acquisitions and the Secretariat sets project management policies and guidelines for the government, the Committee recommends:

### **RECOMMENDATION 3**

**That Public Works and Government Services Canada and the Treasury Board of Canada Secretariat together develop criteria and guidelines by 31 December 2010 for how to manage urgent acquisitions.**

### **DOCUMENTATION**

The audit also examined the challenge and quality assurance roles played by the Secretariat for the four projects. The audit found that the Secretariat did challenge National Defence on some issues, such as whether National Defence fully understood the long term implications of the tank replacement project. However, the Secretariat did not challenge National Defence on the completeness or accuracy of submissions to the Treasury Board.

Departments are expected to disclose all relevant information related to their submissions to the Treasury Board and its Secretariat. The audit found that when seeking approval to lease 20 Leopard 2 tanks, National Defence did not disclose to the Treasury Board that there was a significant risk that it would not be able to replace the entire Leopard 1 tank fleet because it would not be able to equip the new tanks with the land mine ploughs and bulldozer blades needed for operations in Afghanistan. Additionally, for the LAV RWS, National Defence told ministers that the vehicle was the best option to replace the inadequately protected G-Wagon and Bison vehicles, but internal documents indicated that the LAV RWS was not one of the preferred options and that the project was approved in order to build a better LAV. Also, when the

Department sought the approval to purchase 33 LAV RWS vehicles for \$55 million, it did not inform ministers that the total cost would be in excess of \$100 million due to needed modifications.

Departmental officials told the Committee that the lack of disclosure on the tank acquisition was because National Defence did not believe that the technical problems with the Leopard 2 tanks would substantially change the purpose of obtaining tanks and getting them to Afghanistan quickly.<sup>8</sup> With respect to the LAV RWS, the Committee was told that there was a large amount of analysis done, much of it by fairly junior ranking officers.<sup>9</sup>

The Committee believes that it is essential that departments provide ministers, who are responsible to Parliament for the decisions they take, with clear and consistent information, as they cannot otherwise perform their decision-making role properly. While the Committee received explanations for the inconsistent information provided to ministers, none of these reasons were documented. The Committee acknowledges that due to the urgent nature of the acquisitions, it may not have been possible to follow some of the usual project management steps and to prepare all of the required documents. However, it is nonetheless vital to document key decisions, such as whether to forgo some of the project management steps, whether new information needs to be provided to ministers, or whether departmental analyses should be set aside. Thus the Committee recommends:

#### **RECOMMENDATION 4**

**That National Defence ensure that key decisions for urgent operational requirements are adequately documented, as was noted by the Office of the Auditor General in recommendation 5.83.**

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<sup>8</sup> Meeting 6, 9:20.

<sup>9</sup> Meeting 6, 10:50.

## **CONCLUSION**

The Committee commends the exceptional work being done by the brave and skilled Canadian Forces personnel in Afghanistan. They are involved in an intense and constantly evolving conflict, and it is vital that they have access to the best equipment available in a timely manner. Officials at National Defence and PWGSC worked hard under difficult circumstances to obtain that equipment as quickly as possible, and for the most part they did so. The vehicles acquired are now operational in Afghanistan and are saving lives.

The audit by the OAG demonstrated that there were some problems in the management of these projects and the acquisition of the needed vehicles. The shortened timelines meant that National Defence was not able to follow its project approval guide, there was some confusion with PWGSC over roles and responsibilities, and National Defence did not disclose some important information to the Secretariat. The Committee believes that it is important that lessons are learned from this experience to ensure that future urgent needs are met in an efficient and effective manner.

# APPENDIX A LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
<p><b>Department of National Defence</b></p> <p>Robert Fonberg, Deputy Minister            Andrew Leslie, Chief of Land Staff            Dan Ross, Assistant Deputy Minister (Materiel)</p> <p><b>Department of Public Works and Government Services</b></p> <p>François Guimont, Deputy Minister            Terry Williston, Executive Director, Military Procurement,            Land, Aerospace and Marine Systems and Major Projects Sector</p> <p><b>Office of the Auditor General of Canada</b></p> <p>Sheila Fraser, Auditor General of Canada            Jerome Berthelette, Assistant Auditor General            Hugh McRoberts, Assistant Auditor General</p> <p><b>Treasury Board Secretariat</b></p> <p>John Ossowski, Assistant Secretary            International Affairs, Security and Justice</p>	<p>2010/03/30</p>	<p>6</p>



# REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings (40th Parliament, 3rd Session: [Meetings Nos 6, 9, 11 and 26](#)) is tabled.

Respectfully submitted,

Hon. Joseph Volpe, MP

Chair