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Chair

Mr. David Christopherson

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•(0845)

[English]

The Chair (Mr. David Christopherson (Hamilton Centre, NDP)): I now declare this 40th meeting of the Standing Committee on Public Accounts in order.

Colleagues, we're joined today by a few guests. Mr. Chris Alexander is the Parliamentary Secretary to the Minister of National Defence. Mr. Matthew Kellway is the critic for the official opposition for military procurement.

I had an opportunity to serve with both of them on the defence committee. It was an excellent experience, I might say, and I welcome both to the committee today.

Mr. Laurie Hawn, of course, joins us also. Welcome, sir.

Other than that we have the usual roundup of suspects.

Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.): We have an unusual suspect here, Mr. Chair. Mr. Alexander's here with us, too.

An hon. member: He just introduced him.

The Chair: I just mentioned him.

Hon. Gerry Byrne: Oh, I'm sorry. I missed that. I was busy conversing.

The Chair: Today's proceedings are fairly straightforward. In a moment I will call on the Auditor General to present his opening remarks and formally present to the committee chapter 2, "Replacing Canada's Fighter Jets", from his spring 2012 report. Following Mr. Ferguson's opening remarks and his introduction of his delegation, I will open up the floor for questions. We will follow the usual rotation as set out by our policies at the beginning of this Parliament.

Are there any concerns, questions, or comments about proceeding in that fashion? Hearing none, we will proceed to get under way.

Welcome, Mr. Ferguson. We appreciate your coming, especially on such short notice. I know you had to do some major gymnastics with your schedule in order to be here. We very much appreciate the priority you're giving to this committee, in terms of ensuring you're able to support us in our work of supporting you.

With that, Mr. Ferguson, please introduce your delegation and immediately move to your opening remarks.

Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General of Canada): Thank you and good morning, Mr. Chair.

I am pleased to be here to discuss chapter 2 of our spring report. I am accompanied by Assistant Auditor General Jerome Berthelette; and John Reed, principal. These two were responsible for this audit.

This audit dealt with two aspects of Canada's longstanding efforts to replace the fleet of CF-18s. First, the audit examined how federal departments managed participation in the U.S.-led international joint strike fighter program. Second, the audit examined how departments managed the process leading to the decision to purchase the F-35 jets.

[Translation]

Owing to the unique nature of Canada's participation in the Joint Strike Fighter program, we examined whether departments exercised due diligence in managing their respective responsibilities. We looked at whether they had conducted appropriate analysis, clearly defined roles and responsibilities, undertaken sufficient consultation, provided oversight and obtained approvals.

We did not audit the merits of the F-35 aircraft. We found that National Defence and Industry Canada did a good job of managing Canada's participation in the US-led Joint Strike Fighter, or JSF, program to design and develop the F-35 aircraft. For example, we found their early efforts to secure benefits for Canadian companies were significant and successful.

However, the audit identified a number of weaknesses with respect to how departments managed the decision-making process to replace the CF-18s. As described in the chapter, by the end of 2006, the procurement of the F-35s was effectively in motion. Failure to recognize this fact contributed to three key weaknesses discussed in the chapter.

•(0850)

[English]

First, several of the usual steps associated with procurement were taken out of sequence, and important documents were prepared out of sequence, rendering them of little consequence. Key decisions were not always supported by adequate analysis or documentation, and did not receive required approvals. Public Works and Government Services Canada was not engaged in its role as the government's procurement authority until late in the process, and it endorsed the decision to sole-source the acquisition of the F-35 jets without required documentation or completed analysis.

Second, risks identified by National Defence did not reflect the problems being experienced by the U.S.-led joint strike fighter program. National Defence has been overly confident about risk-mitigation strategies.

Third, National Defence has understated and underestimated the full life cycle costs associated with acquiring and sustaining the F-35 aircraft by calculating the costs on a 20-year basis and omitting some important cost elements. The department did not take the opportunity to provide Parliament with complete cost information when it responded to the Parliamentary Budget Officer's report.

[Translation]

In short, neither National Defence nor Public Works and Government Services Canada exercised the diligence that would be expected in managing a \$25-billion acquisition. National Defence, Industry Canada, and Public Works and Government Services Canada have accepted the facts presented in the chapter. Going forward, it is important that the process to replace Canada's CF-18 fleet reflect principles of due diligence, scrutiny, rigour and transparency.

[English]

Mr. Chair, other than saying that from time to time I may have to confirm things with the two officials I have with me or that I may ask one or the other to respond to questions, this concludes my opening remarks. We would be pleased to answer any questions the committee may have.

Thank you.

The Chair: Excellent. Thank you again, Mr. Ferguson.

Colleagues, you now formally have before you chapter 2 of the spring 2012 report of the Auditor General of Canada.

In proper rotation, beginning with Mr. Saxton, we will begin questions and comments for Mr. Ferguson and his delegation.

Mr. Saxton, you now have the floor, sir.

• (0855)

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Mr. Chair. And thank you, Auditor General, for coming today and for bringing your assistants along as well.

First off, I'd like to ask the Auditor General if he could please confirm that not a single aircraft has been purchased to date and that his audit is simply of the process to date.

Mr. Michael Ferguson: The audit was of the process up to the date stated in the chapter. Certainly, as of the time of the audit, no jets had been purchased.

Mr. Andrew Saxton: Thank you.

Mr. Ferguson, I know that you have had considerable experience and success in your previous field, prior to becoming the Auditor General of Canada. Can you advise the committee, then, whether it is standard auditing practice to conduct performance audits on a procurement that has yet to take place?

I know that you made some reference to this in your April 5 appearance before committee, but I was hoping that you could perhaps just expand on the uniqueness of this particular audit.

Mr. Michael Ferguson: Thank you.

This was an audit that looked at the process up to this point in time. The decision was made on the basis that enough of the process had happened that an audit was able to be done. This was an important type of purchase, a significant amount of money, and therefore, the decision was made to do an audit at this point in time.

Certainly, in audit practices, there are audits that are done after the fact. There are also audits done during the process. In fact, there are some audits, referred to as "real-time audits", that go along as something is occurring.

Because of the size and the importance of this particular purchase, it was decided that this was the appropriate time to do an audit.

Mr. Andrew Saxton: Thank you, Mr. Ferguson.

Can you explain the difficulties that you and your team may have encountered in auditing a developmental program such as this one being considered for the replacement of fighter aircraft, considering that nothing has been procured to date?

Mr. Michael Ferguson: Probably the primary concern, the main thing, that we had to deal with was that because this was a unique approach to purchasing the aircraft, we recognized that the normal rules would not necessarily apply. That's why what the audit was about was to determine whether the organizations applied due diligence, and we define due diligence in terms of the basic practices of good management.

What would have been helpful to us in conducting the audit would have been if the departments had recognized more fulsomely the uniqueness of this particular approach that they were using, and had agreed up front on what the different roles and responsibilities were going to be. But because those were not there, we had to do the audit on the basis of good management practices and due diligence.

Mr. Andrew Saxton: Thank you.

Can you explain how the fact that there were international partners involved may have complicated the audit as well?

Mr. Michael Ferguson: I'm not sure that actually complicated the audit very much at all. The complication there was more in the fact that there were two pieces to the audit. One was that we were looking at Canada's participation in the U.S.-led joint strike fighter program. The other was that we were looking at the processes within Canada that were leading to the announcement of the intention to purchase. The involvement of other organizations really didn't complicate our audit. It was just part of what was going on in the joint strike fighter program.

Mr. Andrew Saxton: Thank you.

Auditor General, there being some pretty creative interpretations of what your audit has concluded, I think it is vital for the committee to have a clear idea exactly what we're focusing on in this meeting. Could you please explain to us what, precisely, your one recommendation was?

• (0900)

The Chair: Very briefly, please, Mr. Ferguson, Mr. Saxton's time has almost expired.

Mr. Michael Ferguson: Mr. Chair, for the record, the recommendation is contained in paragraph 2.77. I could read it for the record, or the members could refer to it, whatever you wish.

The Chair: We're quite a bit over the time; we'll have to leave it at that right now. If Mr. Saxton wants one of his colleagues to pick up from there, they can do that.

Thank you very much, and thank you, Mr. Saxton.

Mr. Allen, you have the floor, sir.

Mr. Malcolm Allen (Welland, NDP): Thank you, Mr. Chair, and thank you, Mr. Ferguson, for being with us today.

Let me thank my colleagues on this side of the table for exerting pressure on the other side of the table to make sure that you came first, because it's appropriate that you speak first to the chapters, sir, that are under your purview, first and foremost, before we speak to anyone else.

We have certainly appreciated when you've been before us at other times, and we certainly appreciate you being here today with Mr. Reed, the principal of this chapter, and Mr. Berthelette, who is also helping out.

Let me ask the first question to you directly, sir. Do you know who in cabinet knew about the full life cycle cost? Do you actually know who those cabinet members would be?

Mr. Michael Ferguson: No.

Mr. Malcolm Allen: So you don't know any of the names of particular ministers. Whether you can tell us them or not, do you know whether the Minister of Defence knew about the full life cycle cost? When I say full life cycle cost, I'm talking about the one you identified of \$25 billion.

Mr. Michael Ferguson: We identified in the chapter that the budgets for the costing information were approved. That would have gone through the normal process. I don't have the information to tell you who, exactly, was at the table when that was done, but certainly that costing information did go through process and those budgets were approved, as we state in the chapter.

Mr. Malcolm Allen: So based on your information in the chapter, am I correct in stating that this information, because it was passed, would have been before the cabinet? For me, it's the particular departments involved, National Defence and Finance—they do budgets—and I would expect the Prime Minister would sign off on things like budget.

Is it fair to say that they would more than likely be the three individuals involved in at least that piece of authorization of \$25 billion heading towards a budget? So that would be the Prime Minister, Minister of Finance Mr. Flaherty, and Minister of Defence Mr. MacKay.

Mr. Michael Ferguson: Again, really, all I can respond to that question is that those budgets were approved. They went through the normal process, but I certainly don't have with me. I don't think I would even have access to information about who saw what when,

other than to say that it went through normal process and it was approved. Those questions, in terms of specifics, are better addressed to the departments.

Mr. Malcolm Allen: Sir, you've indicated that this, indeed, went before cabinet, as you said in the chapter, in the sense that it's a budget approval process and it went before cabinet. I believe that's what you're saying. You're not sure who actually saw it at cabinet. I accept that.

Can you tell me when, indeed, the \$25 billion was authorized by the cabinet?

Mr. Michael Ferguson: Paragraph 2.69 does state that, for example, "in 2008, a budget of CAN\$16 billion was established to operate and sustain the F-35 over 20 years." Again, I think that paragraph of the report indicates the amounts that were approved, that they were established budgets, and the timeframe of those approvals.

• (0905)

Mr. Malcolm Allen: So you've used the amount \$16 billion. Wasn't there another amount there as well, sir? Is there another amount that gives an actual total of approval?

Mr. Michael Ferguson: Yes, the other amount was a budget of \$9 billion for the acquisition of the fighter jets.

Mr. Malcolm Allen: So it gives a total of \$25 billion, if my arithmetic is correct.

So that was in 2008-09. Not that long ago, the PBO, Kevin Page, actually came up with a number of \$29 billion, and the government responded that the number was wrong and that it was \$15 billion.

In your experience, sir, would the government have known that it was actually \$25 billion since they passed their own budget?

The Chair: Thank you.

Again, please be brief, Mr. Ferguson.

Mr. Michael Ferguson: Thank you, Mr. Chair.

The number of \$25 billion was a number that was established by Defence that included both the purchase and the maintenance cost, and the budgets were approved through normal process.

The Chair: Very good. Thank you, Mr. Allen. Your time has expired.

Now over to Mr. Kramp. You now have the floor, sir.

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Chair, and certainly welcome to our guests here today. Mr. Allen asked to be on the record, and I think we should also go on the record that we've been trying to facilitate this meeting for the past three weeks, and of course, had a motion on the floor to do just that. It was unfortunately blocked and grandstanding took place. The bottom line is you're here now, and thank you very kindly for appearing. Certainly that was the government's intention, as our motion illustrated, from day one.

What I would like to do is to talk about some of the challenges or discrepancies that your audit found. I think it's important that we deal with them.

A significant portion of your report related to the disagreement with the consistency of the costing methodology between PBO, between the Auditor General's office, and between DND. As always, it's crucial that we compare apples to apples, oranges to oranges. We have some differences here, clearly. I see that as problematic. You certainly saw that as problematic, sir. I think we do need some clarification on that. As an example, DND appeared to calculate their amortization over a 20-year period, and your office used 36 years. That is only one of the differences.

So I'm wondering, can you explain to this committee why we did not have the consistency here in the costing methodology from each party in the process. Was there not a process clearly established? Where did this break down, and how could we improve it in the future?

Mr. Michael Ferguson: Thank you.

The documents that we saw, which were prepared by National Defence, indicated that they understood the need to do life cycle costing, and for the most part, indicated that they understood that the life cycle of these aircraft was going to be at least 30 years. I think that is probably the way that it was phrased. Doing life cycle costing is something that is good practice. It's part of National Defence's normal practice. It's part of Treasury Board's practice for large capital acquisitions.

Really we would have felt that because this was life cycle costing—the way to do life cycle costing is based on the estimated life of the particular asset to sort out what all those costs were going to be and then to include those costs over that full life cycle, rather than choosing a period of 20 years. I think that was where the first primary discrepancy came in. It was the fact that National Defence chose to present this information on a 20-year basis rather than on the full life of the assets, which they knew to be longer than 20 years.

Mr. Daryl Kramp: Did you ask DND for an explanation of why they did this, and did they provide one to you?

Mr. Michael Ferguson: I think the question would be best posed to the department. I can't really speak for the department. However, my understanding is that using 20 years was the normal practice of the department.

Mr. Daryl Kramp: Thank you very much.

I have another question. To me it's a challenge, but it's important that we differentiate the allocation of costs between fixed costs and operating costs. As you know, in our standard process, in our estimates, we approve various operating costs. How can we be

consistent and how do we ensure that a certain portion of operating costs should be allocated to an acquisition?

As an example, if this plane requires further runway expansion, is that then considered a part of the acquisition cost or is that just a cost that would be attributed to normal operating costs that DND and/or the government or Public Works would face in the normal process of their operations, which we would approve in estimates?

• (0910)

Mr. Michael Ferguson: The question, I guess, is sort of one of general practice. Certainly I would say that the best practice, particularly for a purchase of this size, would be to say, what are the full costs of the actual acquisition of the jets, what are the costs of running and operating the jets, and then, what are any other ancillary costs that may be caused by the purchase of the jets. For example, if government is being asked to acquire one asset and the purchase of that asset requires a significant expansion to another asset, that is information that the department should be putting together and making sure that the cabinet is aware of it.

Mr. Daryl Kramp: Fine. Thank you very much. I appreciate your forward answers.

The Chair: Thank you, Mr. Kramp. Your time has expired.

We now move on to Monsieur Ravnignat.

You have the floor, sir.

Mr. Mathieu Ravnignat (Pontiac, NDP): Thank you, Mr. Chair.

Thank you, gentlemen, for being here, and of course, for the important work that you do for Canadians.

What is clear to anybody who looks at this file is that there has been mismanagement after mismanagement after mismanagement. If there are regulations in place, those regulations were not been followed from the beginning, and that is the nature of my questions to you this morning, Mr. Ferguson.

In your report you outlined very clearly Treasury Board policies when it comes to acquisitions. You clearly state that Treasury Board policies consider all relevant costs over the useful life of equipment, not just initial acquisition or basic contract costs.

The Minister of Defence, on April 8, 2012, contradicted you and said that it was an accounting difference.

My first question to you is, is it or is it not a difference in accounting?

Mr. Michael Ferguson: Thank you.

The need to do life cycle costing on significant acquisitions of assets is, as we state in the report, normal practice of Treasury Board. In fact, it's normal practice of the Department of National Defence. So the full life cycle costing, understanding what an asset is going to cost beyond the initial acquisition, is certainly an integral part of understanding the impact of an acquisition, Mr. Chair.

Mr. Mathieu Ravignat: Is somehow the Department of National Defence not held to the rules of Treasury Board, in your knowledge?

Mr. Michael Ferguson: As a general answer, Treasury Board policies need to be followed by every department.

Mr. Mathieu Ravignat: That's our understanding on this side of the table as well, Mr. Ferguson.

Let us move on to another mess, and that is the relationship between DND and Public Works.

Mr. Ferguson, you point out in your report on more than one occasion—in fact I've cited three times—that Public Works was not properly consulted at various points throughout this process.

I have a very specific question for you. Did Public Works at the time just simply sign off on this project without any due diligence?

Mr. Michael Ferguson: We certainly saw instances where Public Works was trying to get the information from National Defence. Public Works was trying to do due diligence. However as we state in the chapter, they were hampered by the fact that they were brought in late to the process. But then also, even though they had been asking National Defence for information around operational requirements and hadn't been receiving it, at the critical point, they did sign off on the sole source on the basis of a very short letter.

In terms of whether they exercised any due diligence, yes, they exercised some due diligence, but we deemed it was not sufficient.

● (0915)

Mr. Mathieu Ravignat: Thank you for that.

May I ask you about the solution, now that the government has been caught, to pass the puck back to Public Works? Have you seen the details of that seven-point plan, and do you think it's satisfactory?

Mr. Michael Ferguson: We haven't gone through the plan in detail. We haven't done an audit on the plan. I think the critical starting point in anything moving forward—and I think it is very important to get this right from here on in—is that the organizations charged with managing this process are given a very clear statement of purpose, a very clear direction about what is expected of them, and I think if that is provided, then the organizations involved will be able to carry out their task.

Mr. Mathieu Ravignat: Thank you, Mr. Ferguson.

I have one last question, and this is a concern that we have on this side of the table. It is whether or not, in your opinion, you actually got all the documents necessary—all those that you needed to complete this study. You state in your report, “In some cases, documented analysis did not exist to support decisions.” Did you receive all the documentation you needed to do your important job on this file?

The Chair: Be very brief, please.

And we need a little more quiet over here, please.

Go ahead, Mr. Ferguson.

Mr. Michael Ferguson: Thank you, Mr. Chair.

Yes, we received everything we asked for, and in fact if we hadn't, we have a responsibility to specifically state that in our work. We received any information that we asked for.

Mr. Mathieu Ravignat: Did that include—

The Chair: Sorry, Mr. Ravignat. No, sorry, please. Your time has expired. Thank you.

Mr. Shipley, you now have the floor, sir.

Mr. Bev Shipley (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chair.

Welcome to the witness.

I want to go first, Mr. Ferguson, to your comments in your presentation, just for clarification. In bullet number 10, you talked about “that would be expected in managing a 25 billion dollar acquisition”. Am I to understand that's what would be the estimated actual purchase of the plane plus the sustainability and the operating of it over a cycle of time?

Mr. Michael Ferguson: Thank you.

What we are using in that statement is National Defence's numbers, so this is, at least, a \$25 billion purchase. We've identified that there are issues and questions around how that number was calculated, but regardless of whether the number is higher or not, it's at least a \$25 billion purchase, and therefore we would expect a certain level of due diligence applied to that transaction.

Mr. Bev Shipley: So that number would include what you might call full life cycle cost.

Mr. Michael Ferguson: That number includes what National Defence estimated to be the operating, maintenance, and sustaining cost for a 20-year period. We would have expected that the number would have included the additional years, so, no, it was not a full life cycle cost. It was a 20-year cycle cost.

Mr. Bev Shipley: This is likely something that Canadians need to try to wrap their heads around just a little bit—what we call full life cycle cost. I want to go to the full life cycle cost, because it has been brought up a number of times here.

First of all, have the costing models used by DND violated any Treasury Board approved methods for recording, calculating, and projecting these costs? Has there been any violation of Treasury Board method?

Mr. Michael Ferguson: We didn't make a decision or conclusion on the basis of whether policy was violated or not. We identified that there were items missing from the life cycle costing. While the department was presenting something that was a life cycle cost, we felt it had elements missing and wasn't for enough years, so therefore, it was not a satisfactory estimate of life cycle cost.

● (0920)

Mr. Bev Shipley: Maybe you can help so the ordinary Canadian out there can understand what full life cycle cost might be.

I'm going to buy a car. I think these jets don't come for five or six years. There's an indefinite time before they actually land here. So when we're trying to calculate a full life cycle cost—and I need clarification on this—we're looking out for 20 or 25 years, or that's under discussion, I guess. So we need to determine the fuel used. We'd have to try to determine the number of tires, the length of time, and what those costs would be over the life of this vehicle, because we're going to now keep it for 20 or 25 years. There's the amount of oil it would require, the amount of windshield washer liquid we would need to put in it, the amount of repairs that would be required—not only mechanical, but there might be an accident and we would have to fix a ding or two. So there would be body repair.

Do I have to allocate into it now that it's going into a garage? There's an allocation of space for that car in my garage. Say I have a two-car garage. So on that allocation of space, would I have to allocate the repairs to that garage that might happen over 25 years to that vehicle? Because the house is insured and the garage where the car is parked is part of it, does insurance for that vehicle get included in the total costs for 25 years? Because I drive it on my laneway but I share my laneway with a truck I have, I'll have to now look at my laneway for 25 years and determine if I'm going to take it from a gravel laneway to an asphalt laneway. But now I'm going to have to worry about potholes that might appear in it.

So now I have over 20 to 25 years to try to estimate what costs of that is going to be allocated towards this vehicle that, actually, I'm saying I'm not going to buy it now. I'm going to get it five years from now, and then from that five years I'm going to extend it out another 25 years.

I'm just trying to—

The Chair: Mr. Shipley, please pay attention to me. Your time has expired. Please stop. I'm going to allow Mr. Ferguson a few moments to respond, but this is the only way we can proceed. Your proper allocation of time has expired.

Mr. Bev Shipley: I'm sorry.

The Chair: Your apology is accepted.

Mr. Ferguson, provide a brief response, please.

Mr. Michael Ferguson: Thank you, Mr. Chair.

First of all, I think the honourable member is buying cars the same way I am, trying to keep them going for 25 years. Having said that, the important thing in life cycle costing is to get a full picture of what those costs are going to be to operate something like this.

We identified that there were some significant things were missing from the life cycle costing—for example, attrition, upgrades, and the fact that these aircraft were going to last for 36 years, not just 20 years. When we raised the issue of life cycle costing and the fact that it was not complete, I don't believe we were nitpicking in any way. I think that we were saying that there were some significant elements that were missing.

The Chair: Very good. Thank you, and I appreciate the brevity.

Moving on, Mr. Byrne, you, sir, now have the floor.

Hon. Gerry Byrne: Thank you very much, Mr. Chair, and thank you to Mr. Ferguson and your team for appearing before us. It was a bit of tough sledding getting you here, but I'm glad you're here now.

Paragraph 2.82 of your report indicates that the Department of National Defence and the Department of Public Works and Government Services Canada disagreed with and refused to accept any of the conclusions of your report, as outlined in paragraphs 2.80 and 2.81. Has any minister formally corresponded with the Office of the Auditor General, subsequent to the release of your report, indicating to your office that they have reversed their position and now accept your conclusions?

Mr. Michael Ferguson: Thank you.

Certainly, to the best of my knowledge, we have not received any correspondence from any minister on this chapter.

Hon. Gerry Byrne: Has any departmental official within the Department of National Defence or the Department of Public Works and Government Services formally corresponded with your office to indicate that they are reversing their position and now accept your conclusions as contained within the report?

•(0925)

Mr. Michael Ferguson: No.

Hon. Gerry Byrne: Thank you, Mr. Auditor General.

In the course of your audit, did you find any basis to confirm the government's assertion that some replacement of the CF-18 fleet was necessary, and—what I'm most interested in—that a specific replacement aircraft was required relatively immediately? Was there a basis to conclude that something had to be done and done quickly?

Mr. Michael Ferguson: The audit was more an audit of the process that occurred after the decision to enter into the joint program with the United States, and then the decision, further on, towards the choice of jets to replace. It was not an audit looking at, in first instances, should the government or should not replace the jets. That wasn't the audit. The only thing, I think, in the audit that relates to the question is the fact that the useful life of the existing jets, the CF-18s, is expected to come to an end in the timeframe of 2017 to 2020.

Hon. Gerry Byrne: Perhaps Mr. Reed or Mr. Berthelette would be able to answer this question better.

During the course of your audit, did you find any evidence that the government, by the fall of 2011, was considering any other aircraft as a potential replacement for the CF-18 other than the U.S.-led joint strike fighter aircraft, the F-35? Was there anything else being considered?

Mr. Michael Ferguson: As I understood it, the question was about the process up to 2011. Through that process, we found that options were considered, but they were considered earlier on than the 2011 point that the question referred to. There were points in time when different aircraft were identified as potential options, but that would have been before 2011.

Hon. Gerry Byrne: I think what I'm hearing from you and your team is that by the fall of 2011, the only option being considered at that point in time was the F-35.

Mr. Michael Ferguson: Certainly in 2010, the government announced its intention to purchase the F-35. Now again, it still had not put in any order to actually acquire a jet at that point in time. But certainly, from the point in time that the decision was announced, everything was moving towards the eventual purchase of the F-35.

Hon. Gerry Byrne: Thank you, Mr. Ferguson.

I think, from the point of view of the committee—

The Chair: Be brief, Mr. Byrne.

Hon. Gerry Byrne: —if there is a basis of evidence in which the CF-18 needs to be replaced immediately, and if we find that basis, and there's only one aircraft, the F-35, now in consideration.... If you couple need, requirements, and the fact that only one aircraft is being considered, we've effectively bought the F-35. Would you agree with that conclusion, or do you have an opinion about that?

The Chair: Mr. Ferguson.

Mr. Michael Ferguson: Thank you, Mr. Chair.

Certainly we have indicated in the chapter that everything that happened throughout this time period was leading more and more toward the eventual purchase of the F-35. However, again, we stated a few times that it's important that before that purchase is made, the government revisit what could happen and make sure they're going to make the right decision in replacing the CF-18.

● (0930)

The Chair: Very good.

Thank you. Time has expired.

Mr. Aspin, you have the floor, sir.

Mr. Jay Aspin (Nipissing—Timiskaming, CPC): Thank you, Chair.

Welcome, Mr. Ferguson and your colleagues, and thank you for appearing before us today.

Mr. Ferguson, you have indicated in your testimony that this is a unique approach, due to the unique nature of Canada's participation in the joint fighter program. I can agree with that. Our government has been cutting its teeth on this program. This is an international program, a joint program. It involves up to, I believe, eight nations, and was started and endorsed by the Liberal government.

We do have to remember that these are estimates. We are strictly at the developmental stage.

One of the key lessons learned in this whole process and in other processes, and specifically I refer to our shipbuilding procurement, which was a very successful procurement, is that we need to engage experts and keep politics as far away from the decision-making process as possible. That's a good lesson learned. The new secretariat that is envisioned will do just that, and they will start with fully costing the F-35 jets.

Do you think, sir, that this is the right approach to getting a full and impartial costing of these jets over time?

Mr. Michael Ferguson: Thank you.

We haven't done an audit on the process that the government has announced it's intending to follow, so I can't comment on any specifics of that.

Mr. Jay Aspin: I appreciate that, sir, but in your previous career or in your knowledge in taking over your specific duties, have you ever studied this innovative procurement process? If so, what were

your thoughts with regard to the process we created that was very successful in procuring ships for the 21st century?

Mr. Michael Ferguson: I guess that has various parts. Again, we haven't done an audit on the process the government has announced. We haven't done an audit on the ship procurement either.

In my previous career, I had been part of projects for purchases of assets. It is very critical in those projects to make sure that due process and due diligence and rigour are applied to make sure that the right decisions come out of those types of projects. That's what this audit was all about—looking to see, in this instance, whether those basic principles of good management were applied in the whole decision-making process.

Mr. Jay Aspin: Thank you for that, sir.

That's a good segue into my next question about due diligence, scrutiny, rigour, and transparency. With your previous experience or with your current experience in your new role with the government, would you agree that this new secretariat would address these problems in removing silos and centralizing decision-making?

Mr. Michael Ferguson: Again, because we haven't done an audit of the new process, I can't comment on the specifics of the process.

Mr. Jay Aspin: Okay.

I'll wind up my time, Mr. Chairman, by reminding members that we are simply talking about estimates here. We're in the developmental stage.

The Chair: Very good. Thank you, Mr. Aspin.

We will now move to Mr. Kellway.

You, sir, now have the floor.

Mr. Matthew Kellway (Beaches—East York, NDP): Thank you very much, Mr. Chair. To Mr. Reed, Mr. Ferguson, Mr. Berthelette, thank you for being with us today.

Mr. Ferguson, unlike you and Mr. Shipley, I just buy vehicles in the hope that they last as long as possible. I'm not optimistic about these things. I'm thinking 10 or 12 years. I know some of my colleagues haven't even ever purchased a vehicle, which leads to my question.

Wouldn't it be a problem if the government decided to purchase fighter jets in the same way that it buys its vehicles, since everybody approaches these things differently? Secondary to that, aren't there well-established processes already in existence that governments are supposed to follow for these purposes?

● (0935)

Mr. Michael Ferguson: Thank you.

Again, I think this particular purchase is a very large purchase for assets that are going to last for a very long time. It's a very large financial commitment. Therefore, it's very important that the right financial analysis be done so that it's clear that the government understands the cost of the assets and the cost of maintaining those assets, including the types of costs that we said should have been included.

I would rather not get into the discussion about analogies, because quite frankly, in this chapter we are talking about acquiring fighter jets. That's unique. They need to make sure that the right processes, the right management practices, are applied to that acquisition.

Mr. Matthew Kellway: Thank you, Mr. Ferguson.

In your report you are critical of the life cycle assumption that was put forward by the department—the \$25 billion life cycle cost, a 20-year life cycle cost—and you noted in your report that, in fact, the government is planning on flying these planes for at least 36 years.

I notice also in the report that the joint strike fighter program office in the United States provides the department annually with Canadianized costing figures based on a 36-year life cycle cost.

Do you have an explanation for us, from your audit, for why a 20-year life cycle cost was chosen by the department instead of a 36-year life cycle cost?

Mr. Michael Ferguson: As I said in response to a previous question, my understanding is that 20 years was the normal practice for the Department of National Defence. However, again, I can't speak for the department and I think the question is best asked of the department.

Mr. Matthew Kellway: Can you tell me this, then, sir? When these documents are received, they're based on the select acquisition reports that the U.S. Department of Defense provides for the U.S. Congress. I'm sure you've seen these. They're very comprehensive. The 2011 document is 85 pages and full of facts, figures, tables, and so on, supporting the 36-year life cycle cost.

When these are received by the department, where do they go? Who receives these?

Mr. Michael Ferguson: Again, I think it's best if the question is directed to the department to give the specifics of what happens. My understanding is that the department receives the information that's related to the expected acquisition in Canada of our jets. Again, just to make sure the question is answered fulsomely, I think the department can best explain what they receive and what they do with it.

Mr. Matthew Kellway: Thank you, Mr. Ferguson.

I have one very quick question. In paragraph 2.76 you wrote that, "cost data provided by US authorities had been validated by US experts and partner countries, which was not accurate at the time." Which cost data are you referring to? Is this the cost data that formed the basis of the government's \$15 billion life cycle cost?

• (0940)

Mr. Michael Ferguson: Thank you.

I will ask Mr. Reed to answer that question.

The Chair: Very well.

Mr. Reed, briefly, please, sir.

Mr. John Reed (Principal, Office of the Auditor General of Canada): Thank you, Mr. Chair.

That was specific to the \$75 million figure that was used in calculating the acquisition cost—\$75 million per aircraft—and not related to the sustainment costs.

Mr. Matthew Kellway: Okay. Thank you.

The Chair: Thank you very much.

Moving along, Madam Bateman, you now have the floor, ma'am.

Ms. Joyce Bateman (Winnipeg South Centre, CPC): Thank you very much, Mr. Chair.

Thank you very much for being here with your colleagues. We certainly appreciate the work you do.

You will note, sir, that the moment the report findings came out, the Government of Canada took action. We absolutely want to have due diligence, oversight, and transparency in the work we do. That's why the work you do is so very valuable to us, so that we can better serve the citizens of Canada.

[Translation]

And I thank you for that.

[English]

I don't want to belabour the point, but you have referenced, on a few occasions, "substantive" costs and "indicative" costs. Could you give a thumbnail sketch that somebody over the fence, when I'm talking back home, will understand? What are substantive costs? What are indicative costs, as you've used them in this context?

Mr. Michael Ferguson: Thank you.

I don't think we actually used those terms in this particular audit. I think we used them in perhaps one other.

Mr. Reed can give an explanation, I think.

Mr. John Reed: Thank you.

Very simply, it's a reference to the degree of reliability and the degree of certainty. An indicative estimate is generally more of a preliminary one. A substantive estimate is one that's been thoroughly thought through and validated. So it's about the degree of reliability.

Ms. Joyce Bateman: Okay. Thank you, sir.

It's pretty reasonable to then think that we are at the indicative stage in this, because these are all estimates at this juncture, right?

Mr. Michael Ferguson: I think in something like this, there are always degrees of certainty. It's important to prepare the numbers based on the best information that is available, including all of the information that is known at that point in time.

Certainly, as you move through a project like this and as you get closer to the end, the estimates can be more and more precise. But even still, even in early phases, as we indicated, in this instance there were some specific types of cost elements that we felt should have been included because they should have been predicted.

So certainly over time these types of estimates can be more precise, but that doesn't mean that the original cost estimates should not include all of the cost elements.

Ms. Joyce Bateman: Okay.

We are on the same page, sir, in terms of wanting due diligence, total transparency, and good oversight. As my colleagues have mentioned already, we have developed a process that has been very well regarded, not only in procurement circles but by many professions, with our shipbuilding process. Certainly we borrowed very heavily from that in our response to your report, which many have told me.... Some of my colleagues back home have told me that the response the Government of Canada gave to the Auditor General's report for chapter 2 this spring really exceeded, and will create a better system.

Can you let us know when you are going to have a chance to give us feedback on these models? We're here to serve the citizens of Canada better. We're here to make things more transparent and to provide better oversight mechanisms throughout the Government of Canada. It would be incredibly helpful to get feedback on these mechanisms, whether it's the seven-point plan or the shipbuilding process.

• (0945)

Mr. Michael Ferguson: Again, at this point in time we don't have any specific audits planned on either of those items—the shipbuilding acquisition or the remainder of the process for the replacement of the CF-18s. We don't have anything specifically planned right now on either of those items.

Ms. Joyce Bateman: Okay.

I just want to go back to the estimates process here.

The Chair: Very briefly, Ms. Bateman.

Ms. Joyce Bateman: Way back in CA classes, way back in the dark ages...the present value of money; you know, we're doing extrapolations way out. Do you have documentation...?

And of course there's the accuracy. When you're doing extrapolations of figures as they go forward, they're inevitably less concrete than what you paid for a shirt yesterday.

Do you have documentation of all of the estimate processes used in this examination so that we could learn, and can you share that information with this committee?

Mr. Michael Ferguson: Again, the numbers in the chapter are not our estimates. The numbers in the chapter are estimates or amounts that have been prepared by others, by the Department of National Defence, by the—

Ms. Joyce Bateman: But surely the currency fluctuations alone—

The Chair: Madam Bateman, your time has expired. We're into overtime now.

Ms. Joyce Bateman: Okay.

Thank you very much, sir.

The Chair: Mr. Ferguson, you may conclude your remarks on that question.

Mr. Michael Ferguson: I think that's all I needed to say.

The Chair: You're good? Okay. Thank you.

It's just that we're over the time by well over a minute, and we want to be fair to everyone. Thank you, Madam Bateman.

We will now move to Mr. Byrne. You, sir, now have the floor.

Hon. Gerry Byrne: Thank you, Mr. Chair.

Thank you again, Mr. Ferguson.

In your remarks to us this morning, you said, and I quote:

Going forward, it is important that the process to replace Canada's CF-18 fleet reflect principles of due diligence, scrutiny, rigour, and transparency.

Within chapter 2 of your report, your recommendation is that:

National Defence should refine its estimates for complete costs related to the full life cycle of the F-35 capability, and provide complete estimated costs and the supporting assumptions as soon as possible.

It is exclusively for the F-35.

In plain-speak, Mr. Ferguson, have you come to the conclusion that the F-35 is the only aircraft that's really on the table at this point in time? Your recommendation only deals with the F-35 in terms of providing a go-forward cost estimate or analysis, but your indications to us today are that the departments involved really need to go back to square one and look at all options and do this properly.

Do all options include looking at other options, other than the F-35?

Mr. Michael Ferguson: Thank you.

Certainly we identified in the report that everything in the process that we looked at was leading towards an eventual purchase of the F-35. In fact, in 2008 National Defence themselves said it would be exceedingly difficult to operate a competition that would include the F-35 because of National Defence's participation in the joint strike fighter program. There were various activities that occurred over the length of time that would indicate that this was moving towards an acquisition of the F-35. However, the jets have not been purchased yet, and under the memorandum of understanding in 2006, as I understand it, the government does not necessarily have to purchase the F-35.

What's important right now, for the new committee that's going to be looking at this, is, number one, to have very clear direction about whether this is an opportunity to look at all options moving forward or whether the F-35 is the only option. If the direction is to look at all options, then one thing that is very critical is to indicate and to determine how the playing field would eventually be levelled if there was going to be a procurement.

So we're not saying that it can't be done. We're simply saying that during the process, everything seemed to be leading towards the purchase of the F-35. That's why our recommendation was around the costing of the F-35. But what's important from this point on is the direction that the government gives to those tasked with the eventual replacement of the CF-18.

• (0950)

Hon. Gerry Byrne: Thank you, Mr. Ferguson.

It is an important issue, because of course the government is asserting that no jets have been purchased, but if a reasonable person concludes that the only option available to us is a hypothetical aircraft, the F-35, and that we have to go down this road, I think a reasonable person would assert that we've actually purchased the F-35. That is an important distinction as we discuss this and we generate a report.

To Mr. Reed, you were the principal auditor for this particular chapter, is that correct?

Mr. John Reed: Yes.

Hon. Gerry Byrne: Did you have any discussions with either ministers or deputy ministers, or files contained exclusively within the offices of ministers or deputy ministers, in compiling your evidence, your audit materials, for this chapter?

Mr. John Reed: No, during the course of the audit we did not have any direct communication or engagement with ministers or deputy ministers. We did review a large number of briefing materials that were provided to ministers, deputies, and others. But there was no direct contact.

Hon. Gerry Byrne: If you didn't have contact with the deputy ministers or ministers, did you have contact with the offices, for example, the office of the director of the new generation fighter capability within National Defence, the office of the director general of defence and major projects directorate within Public Works and Government Services, or let's say, the office of the F-35 project manager, the director of continental materiel cooperation within National Defence? Was it at that level the audit occurred, in those offices, as opposed to the deputy ministers' and ministers' offices?

Mr. John Reed: Yes. Definitely during the course of the audit, we would have met with a large number of officials representing different branches in National Defence, Public Works, and Industry Canada. That's the standard way of doing audits.

We conducted something in the order of 140 interviews during the course of the audit. Interviews are one form of evidence, but a lot of the evidence supporting the audit would be documentary.

The Chair: Thank you.

Sorry, time has expired. I know—time flies when you're having fun.

Mr. Hayes, you have the floor, sir.

Mr. Bryan Hayes (Sault Ste. Marie, CPC): Thank you, Mr. Chair.

Welcome, gentlemen.

There was a distinct budget established for the joint strike fighter program, and there was a distinct budget for the procurement and sustainment of the F-35s.

The joint strike fighter budget was for a design and development program. So that was completely separate. It's my understanding, according to the report, that budget was \$710 million. To date, according to your report, \$335 million has been disbursed from the joint strike fighter program budget.

Can you please confirm that this \$335 million disbursement was not a part of the procurement budget, and in fact, that no money has been spent on purchasing F-35s?

Mr. Michael Ferguson: Thank you.

The answer to that question is yes. I agree with that statement.

Perhaps I could just take the opportunity quickly, Mr. Chair, on the last question, to simply say, for the committee's record, that at the end of this audit I did have two brief meetings with the deputy minister of National Defence, one of which also included the deputy minister of Public Works. That's just to clarify, with regard to the previous member's question of who we talked to.

Mr. Bryan Hayes: Sticking with the joint strike fighter program, it's my understanding that there were some pretty significant industrial benefits to Canada's involvement in this program. Can you elaborate on that? Do you have a sense of our return on investment?

Mr. Michael Ferguson: Certainly throughout this whole program towards the replacement of the CF-18, industrial participation was given a lot of focus. We indicated in the chapter that there were a number of estimates regarding the potential industrial benefits. We were concerned that those estimates did not include a potential range. They included what really seemed to be just the best estimate of industrial benefits.

There were some significant amounts attached to the industrial benefits that were brought forward. However, as I said, we had some concerns that those amounts did not include a range to provide some sort of sensitivity around how much could be expected in industrial benefits.

● (0955)

Mr. Bryan Hayes: Are you aware, or were you aware at that time, of actual benefits that had occurred to that point in time? There are projected benefits and then there are actual benefits.

Mr. Michael Ferguson: In paragraph 2.30 we say that "By 2006...companies had received 150 contracts valued at approximately CAN\$157 million."

Mr. Bryan Hayes: I'll question the officials when they come as to what the current status is.

In terms of the MOU in 2006, you believe that DND should have engaged Public Works and Government Services Canada and central agencies before and after signing the MOU, and I certainly understand your position. DND did not do that, and I expect it will have an explanation as to why not. But that being said, that process has certainly started now.

In consideration that nothing has been purchased to date, what are the implications of—for lack of a better word—this delay in terms of starting a process that is more transparent and effective? What does that delay cost the taxpayers? Has there been any cost to taxpayers considering we haven't actually purchased anything yet?

Mr. Michael Ferguson: I think the outcome of that is what we identified in the chapter where, in 2008, National Defence indicated that it would be exceedingly difficult to hold a competition that included the F-35 because of National Defence's participation in the joint strike fighter program. So even two years before they actually brought Public Works into this process, they recognized at that point in time that it would be exceedingly difficult to do a competition.

So at this point in time, if a competition were in fact going to be contemplated again, the important thing would be to sort out how the playing field could be levelled to make sure that would be a fair process.

The Chair: Mr. Hayes, your time has expired, sir.

Moving on rotation, we have Mr. Allen up next.

You, sir, now have the floor.

Mr. Malcolm Allen: Thank you, Chair.

Mr. Ferguson, I'd like to refer back to the 2006 MOU, which is around the industrial procurement if you will, or the industrial piece of it, in chapter 2.33. At the end of that chapter, you say:

Projections made by the prime contractors were (and continue to be) extrapolated over the entire production period, and were based on a combination of opportunities related to...

and you list the three. The last and the third is:

potential contract opportunities that are available through competition to companies from partner countries.

There are some numbers bandied about; \$12 billion is one of them according to the estimates from Industry Canada, and yet you seem to suggest that those are not validated. They're sort of perhaps, maybe's, could-be's. Is it fair to characterize these as hopeful and wishful rather than absolute direct benefit?

Mr. Michael Ferguson: Thank you.

In that particular paragraph, we do identify that the estimate of industrial benefits coming from the prime contractors included three components: contracts that were already awarded, potential contract opportunities offered exclusively to Canadian companies, and potential contract opportunities that are available through competition to companies from partner countries. Certainly each of those components has a different degree of certainty to it, and that's why we felt it would have been appropriate that the industrial benefit numbers coming forward should have included a range of the estimated industrial benefits rather than just an absolute number.

• (1000)

Mr. Malcolm Allen: If I could take you to 2.45, about halfway through that piece, you talk about the same MOU of 2006 and point out that the MOU didn't commit Canada to buying the F-35; it was part of that MOU. That was communicated. But what you say is, sir, and I'm reading from your paragraph now:

We did not see evidence they...

and when you say "they", you're referring to ministers,

...were told that retaining industrial benefits depended on buying the F-35 as a partner in the JSF Program.

So the \$12 billion, which you just said to me is an absolute number that perhaps should have been a range—that may be the high

end or it should be the lower end—am I correct in reading this that it says if we're not a partner, we don't get those benefits?

Mr. Michael Ferguson: Certainly it's my understanding that if Canada does not buy the jets, then obviously—other than contracts that are already in place—we would no longer be able to access those additional industrial benefits.

Mr. Malcolm Allen: So if we don't buy the F-35, the \$12 billion is literally smoke? My words—I don't suggest that you have to agree with that terminology.

Mr. Michael Ferguson: Again, I would just indicate that there have been some contracts signed. Some were already done, which I think obviously would not be reversed, but access to future industrial benefits does depend on Canada purchasing the F-35 as a partner.

Mr. Malcolm Allen: Thank you.

I have a couple of really quick questions—one for Mr. Ferguson and one for Mr. Reed—because I'm going to run out of time.

Mr. Ferguson, you said earlier that there's a critical point going forward. It was really about managing, in that there needed to be a "clear statement" of what is expected and how to go forward. Could you tell us who needs to be the person communicating that message?

Mr. Michael Ferguson: That would be that the government—I guess probably represented by cabinet—needs to make sure that the group charged with taking this project from here on in has a very clear statement of purpose.

Mr. Malcolm Allen: Mr. Reed, I believe you're the principal in the 2010 helicopter report. Is that correct? Chapter 6...?

Mr. John Reed: Yes, that's correct.

Mr. Malcolm Allen: You were also the principal of this one. Sir, when you discussed this chapter with those individuals at the departments you were associated with, were any of those folks the same folks that you discussed 2010's chapter 6 with? I don't expect you to know the names off the top of your head right now, but sort of a yes or no, and then I'll ask a subsequent...

Mr. John Reed: Yes, at senior levels.

Mr. Malcolm Allen: Can I—

The Chair: Mr. Allen—

Mr. Malcolm Allen: —get a list of those names for the committee?

The Chair: I'm sorry, Mr. Allen. Your time has expired, sir.

Mr. Malcolm Allen: Thank you, Chair.

The Chair: Mr. Dreeshen, you now have the floor, sir.

Mr. Earl Dreeshen (Red Deer, CPC): Thank you very much, Mr. Chair.

I welcome our guests.

I have just a couple of things. I know that what Mr. Hayes had mentioned.... Perhaps we can flesh out some of this information later when we talk to some of the other departments, but as for what Mr. Allen was just saying, I think in contrast to where he was going, there actually have been some real, significant, and successful benefits that we have seen. I know you pointed that out in your address as well. But we can perhaps talk to other folks about that and get into the details.

There are a few other things. Mr. Kramp wanted to get the actual recommendation on the record, so I would like to do that. What you recommended was that:

National Defence should refine its estimates for complete costs related to the full life cycle of the F-35 capability, and provide complete estimated costs and the supporting assumptions as soon as possible. Furthermore, National Defence should regularly provide the actual complete costs incurred throughout the full life cycle of the F-35 capability.

Again, I think what people need to recognize is that National Defence has agreed to that, has continued “to refine its full life-cycle cost estimates for the F-35 capability and commits to making the estimates and actual costs of the F-35 available to the public”.

Now, the other thing we have been talking about in great detail is the seven-point plan, though we've never actually put it on the record either. I know you're saying that it's going to take some time for you to look at how your recommendation, the response, and the seven-point plan are going to fit together, but just so the people know where people are going with this and know about the quick reaction that is taking place, I'd like to go through it.

Then, Mr. Chair, if I may, I'd like to give the rest of my time to Mr. Alexander.

The seven-point plan says this: commission an independent review of costs for the F-35, which will be made public; freeze the acquisition funding envelope; establish a new secretariat to play the lead coordinating role in replacing Canada's CF-18 fleet; continuing to identify opportunities for Canadian industry to participate in the F-35 joint strike fighter global supply chain; provide annual updates to Parliament; continue to evaluate options to sustain a Canadian Forces fighter capability well into the 21st century; and “Treasury Board Secretariat will also review the acquisition and sustainment costs of the F-35 and ensure full compliance with procurement policies prior to approving the project”.

Those are the details, so that everyone more or less understands what is happening, and of course, we look forward to your analysis as to how that works in the future.

Now, if I may, I would leave this to Mr. Alexander.

• (1005)

The Chair: Let me just point out to the committee that, technically speaking, it is the purview of the committee to determine whether someone who is not a member will be given the opportunity to speak. I've never seen it turned down. I'm going to assume that everyone is in agreement that if they want to share with a non-member colleague that certainly a caucus can do that. Unless I hear an objection, I'm going to go to Mr. Alexander.

You, sir, now have the floor.

Mr. Chris Alexander (Ajax—Pickering, CPC): Thank you very much, Chair.

Thank you very much, gentlemen, for being with us here today.

I just want to be clear on one point. Mr. Byrne went to some lengths to imply that the purchase was more or less done or inevitable, but that the planes are hypothetical. Can you confirm for us that the purchase of replacement aircraft for the CF-18s has not taken place, but that the F-35 is a real aircraft, which is flying? There are several dozen prototypes of it that are being successfully tested. Could you just confirm those facts?

Mr. Michael Ferguson: I think that is an accurate statement, Mr. Chair.

Mr. Chris Alexander: Thank you.

In your statement, Mr. Ferguson, you used the phrase in paragraph 10 “managing a 25 billion dollar acquisition”. In the spirit of precision here, am I correct in assuming that what is referred to by that \$25 billion you mention in paragraph 10 is not solely an acquisition but is acquisition, sustainment, and operational costs for 20 years?

Mr. Michael Ferguson: That's correct.

Mr. Chris Alexander: Would you agree that we should be careful in identifying which numbers refer to which costs as we move toward a full life cycle cost estimate for replacement aircraft for the CF-18?

Mr. Michael Ferguson: That's a fair comment.

Mr. Chris Alexander: Mr. Ferguson, why, given that DND life cycle assumptions have been for 20 years, did you select a 36-year life cycle assumption?

Mr. Michael Ferguson: Thank you.

That was based on the anticipated number of flying hours for each aircraft and the number of hours of expected use annually, which came out to a 36-year life cycle.

The Chair: Your time has expired, Mr. Alexander.

Thank you, both.

I have now concluded the speakers list in rotation. Colleagues will note that we have a little over 35 minutes left. It has been the practice of the committee on occasion to just continue on rotation to the expiration of the committee, or the committee has the right to adjourn now that we have completed the first cycle. I'm in your hands.

Mr. Saxton.

Mr. Andrew Saxton: Mr. Chair, it has been the government's intention all along that the Auditor General would be here for the full length of time and that members would have, at this time, an opportunity to ask him questions so that the Canadian public can get the full benefit of this session, so we recommend that we continue as you suggested.

The Chair: Thank you.

Let me test the floor.

Mr. Byrne.

Hon. Gerry Byrne: It was at the Liberal Party of Canada's insistence that the Auditor General be afforded the opportunity to be here for the full period of time, and we appreciate that he's here now.

• (1010)

The Chair: It will be interesting to see how Mr. Allen beats that one.

Mr. Allen, your thoughts.

Mr. Malcolm Allen: Let's just move on and let the Auditor General speak.

The Chair: It is so ordered.

Mr. Saxton, beginning the rotation again, you now have the floor, sir.

Mr. Andrew Saxton: Thank you very much, Mr. Chair.

I would like to give my time to my colleague, Laurie Hawn, if that's okay with the committee.

The Chair: I'll apply the same rule as I did last time, and I hear no objection, so Mr. Hawn, you now have the floor, sir.

Hon. Laurie Hawn (Edmonton Centre, CPC): Thank you, Mr. Chair.

Thank you to our witnesses for being here.

I just wanted to follow up a little bit on Mr. Alexander's question to be extra precise when we talk about acquisition and sustainment.

There is only one finite number in this whole discussion, and that's the \$9 billion acquisition. Is that correct?

Mr. Michael Ferguson: In terms of that being a \$9 billion budget amount for the acquisition, I'm not really sure what the term "finite" means, but my understanding is that there has been \$9 billion set aside, approved for the acquisition of replacement fighter jets.

Hon. Laurie Hawn: That is the only number that's actually known. Everything else is an estimate, correct?

Mr. Michael Ferguson: The \$9 billion as a number for the budget is a known number, but the amount of cost to actually acquire 65 jets is still an estimate.

Hon. Laurie Hawn: The acquisition, though, the \$9-billion budget, is jets and spares and simulators and initial training and so on. I mean, that's a frozen number. We've frozen that number. That number is known, correct?

Mr. Michael Ferguson: Thank you.

Again, we identified that for acquisition, the government approved \$9 billion for acquisition.

Hon. Laurie Hawn: Thank you.

I want to talk about sustainment now, and the fact that it is estimates. We're going to fly the CF-18 for 40 years, plus or minus. Do we know what that's going to cost, precisely, until we get to the end of that?

Mr. Michael Ferguson: Certainly costs going into the future need to be estimates and have to be estimates.

Hon. Laurie Hawn: Thank you.

Can we estimate today with any kind of accuracy what the cost of fuel is going to be in 2030, 2040, 2050?

Mr. Michael Ferguson: Certainly any costs looking into the future have to be estimates based on the best information known today.

Hon. Laurie Hawn: The same thing goes with salaries. The same thing goes with missions. When we bought the CF-18, we bought it to do some missions in general terms—NORAD, NATO, and so on. We didn't know when we bought the airplane that we'd be operating them in the liberation of Kuwait or that we'd be doing a bombing campaign in Kosovo, or helping out in Libya. These are the kinds of things we can't predict. Those change estimates into reality as the program unfolds.

My point is that all of these preliminary estimates will in fact change for a wide variety of reasons. Is that fair to say?

Mr. Michael Ferguson: Certainly, again, looking at costs into the future is an estimate process. That's why it's important not only to provide estimates but to provide things like ranges and sensitivity analysis around those estimates and to prepare risk mitigation strategies, in case those types of estimates are not accurate.

So it's an estimate process, but whenever you're using an estimate process you also have to use other tools, such as sensitivity around the amounts, and...such as risk mitigation strategies.

Hon. Laurie Hawn: I couldn't agree more. When we throw out there that somehow \$25 billion is somehow a hard, solid number, I suggest that is not being accurate with the Canadian public.

Mr. Michael Ferguson: The \$25 billion number that we used was the amount of the two budget amounts that were approved, \$9 billion and \$16 billion. So we used that on the basis that those were amounts that were actually approved, rather than using a number of our own estimate.

Hon. Laurie Hawn: Okay. I would suggest to you, Mr. Ferguson, that as we're buying the airplanes year by year, we're not buying them like we bought the CF-18, where we bought 130 airplanes in one contract, one time, one price. We and the other eight partners are going to be buying the airplanes year by year. One year we might buy ten, somebody else might buy six, and so on. That total number, whatever it is, then gets negotiated with Lockheed Martin or whoever the contractor is. Then the next year we do another one.

That's when those budgets specific to that year actually get approved to buy the airplane. The budgets aren't approved today. Those are estimates going forward. The budgets will be approved when the time comes. Is that not accurate?

• (1015)

Mr. Michael Ferguson: Again, in terms of the Department of National Defence having approved budget numbers, they had the numbers of \$9 billion and \$16 billion. Obviously those estimates, those numbers, have to go through the appropriations process on an annual basis to get final approval.

Hon. Laurie Hawn: So no signatures have been given to actually expend those dollars, and won't happen until that year.

Mr. Michael Ferguson: And that's precisely why it's important for the government to explain, if they are going to start acquiring these jets, what the potential impact is going to be on budgets into the future, because that will have very much an impact on what has to be approved by Parliament in those future years.

So the very fact that each year Parliament has to vote on the amount that's going to be spent, either for acquisition or for operating costs, is why it is critical that full life cycle costing and information be provided, so that people understand that future impact.

The Chair: Mr. Hawn, your time has expired.

Moving on, Monsieur Ravignat, you have the floor, sir.

[Translation]

Mr. Mathieu Ravignat: Thank you, Mr. Chair.

I agree. Mr. Reed, the list of names you used for chapter 6 in 2010 would be extremely helpful since the same names come up in this situation. Could you please provide us with that list?

[English]

Mr. John Reed: I'm sorry, I missed part of the question.

[Translation]

Mr. Mathieu Ravignat: I'm referring to the list of people you consulted to produce chapter 6 in 2010. Our real concern here is whether public funds were properly managed or not. As we see it, that is the million-dollar question. It is clear that the government lost total control of acquisitions valued at several million dollars. This goes beyond fighter jets; it involves the recent tank procurement as well.

Mr. Ferguson, in your report, you said that the Department of National Defence likely underestimated the full life-cycle costs of the F-35s. We now know that the minister was aware of the Treasury Board rules. My question is simple: why did they underestimate the costs?

[English]

Mr. Michael Ferguson: Thank you.

Again, we can't ascribe any motive. What we did was we identified that life cycle costing was the best practice. Life cycle costing should have been used. There were certain costs that were not included, including the full life cycle, the full 36 years rather than 20 years, and then some specific cost items that should have been included in those cost estimates.

[Translation]

Mr. Mathieu Ravignat: Very well. Thank you.

Did your audit take into account the correspondence between the U.S. government—the Pentagon—and the Department of National Defence?

[English]

Mr. Michael Ferguson: Thank you.

I'll ask Mr. Reed to answer that question.

Mr. John Reed: In paragraph 2.64, we make a specific reference to a letter that was received by National Defence from the Under

Secretary of Defense for Acquisition, Technology and Logistics. So that was one example of correspondence between the Pentagon.

[Translation]

Mr. Mathieu Ravignat: I am familiar with that example, but did you take a comprehensive look at all the correspondence?

• (1020)

[English]

Mr. John Reed: I would have to say that we looked at a lot of correspondence that was transferred between the U.S. joint program office and National Defence, but not specifically between the Pentagon and National Defence.

[Translation]

Mr. Mathieu Ravignat: Did you request it?

[English]

Mr. John Reed: No. We didn't feel the need to request any correspondence.

[Translation]

Mr. Mathieu Ravignat: Now I want to ask you about industrial benefits.

You said that the industrial benefits are based on assumptions. Can you confirm whether an open and transparent procurement process would guarantee that every dollar invested would yield a dollar in benefits?

[English]

Mr. Michael Ferguson: One of the unique aspects of this particular arrangement was the fact that for industrial benefits, companies from partner countries could participate in industrial benefits but would have to compete for those industrial benefits rather than being guaranteed industrial benefits—for example, on a dollar-for-dollar basis.

[Translation]

Mr. Mathieu Ravignat: Very well. Thank you.

In light of the estimated cost of the F-35s, would you agree that these benefits would be greater than those referred to in your report?

[English]

Mr. Michael Ferguson: Thank you.

I'll ask Mr. Berthelette to answer the question.

Mr. Jerome Berthelette (Assistant Auditor General, Office of the Auditor General of Canada): Mr. Chair, we did not actually sit down and examine the difference that would apply if we used the industrial regional benefits policy versus what may result from the industrial participation under the F-35 program.

The Chair: Time has expired.

[Translation]

Mr. Mathieu Ravignat: Thank you, Mr. Chair.

[English]

The Chair: Mr. Kramp, you now have the floor, sir.

Mr. Daryl Kramp: Thank you, Chair.

Thanks to the Auditor General and certainly to the staff who are with him.

I'm still concerned, and I think Canadians are concerned, with the discrepancy in costing. I alluded to it earlier, but the costing estimates provided by the Parliamentary Budget Officer and those that were provided by National Defence obviously were different. They have a dispute over those costs. What is the reason for the discrepancy in those costs, in your opinion?

Mr. Michael Ferguson: Thank you.

I think actually it would be better for the department or the Parliamentary Budget Office to respond to that question. I don't think I can specifically answer for either of them.

Mr. Daryl Kramp: That's fine, but in exhibit 2.6 of your report, you did provide a table that National Defence posted on its website comparing the PBO estimates of certain cost elements with their own estimates.

I'm wondering whether you sought any explanation from National Defence for the difference between those estimates.

Mr. Michael Ferguson: Certainly we did receive a copy of National Defence's comparison in which they arrived at the amount that's displayed in exhibit 2.6. We received their analysis of that, and of how they arrived at those numbers starting from the PBO's estimated numbers.

Mr. Daryl Kramp: I want to be sure that we're dealing with apples and apples here. I say that because obviously the department used Canadian estimates, and of course, figures that would be applied to the Canadian procurement, while the PBO used the American figures that were obtained from the government accountability office in the United States, which is geared towards the American procurement. There are also, of course, significant developmental costs involved in the American procurement. They're also looking at different aircraft, which are substantially different from the Canadian one with substantially more cost involved.

What I would like to know is, in your opinion, whether the method in the Canadian or the American context is more accurate. Where do we sit on this? I want to make sure we're comparing apples and apples, and not apples and oranges again.

Mr. Michael Ferguson: Thank you.

Certainly the ability to compare was one of the concerns we had. For example, the Parliamentary Budget Office calculation indicates that they were assuming a 30-year life cycle. But again, the numbers that were prepared by National Defence were taken from the numbers that they had using their 20-year life cycle.

So there is a big problem with comparability between the numbers. Again, because National Defence understood at that time that the expected life cycle was 36 years, we thought the best way for them to respond would have been to come forward with their full life cycle costing based on 36 years, especially since they knew the Parliamentary Budget Office was using a 30-year life cycle.

• (1025)

Mr. Daryl Kramp: Thank you very much.

Chair, I think for the benefit of the people watching here, the very fact that we are here today in public accounts as one of the instruments of accountability in our government—and there are many—clearly illustrates the fact that government can collectively, despite our political posturing that takes place on a number of occasions.... Canadians should take comfort in the fact that we're here getting witnesses and testimony, and that we have a system that generally provides the best results for Canadians.

There are differences of opinion. Moving forward, the government has already announced a seven-point plan, freezing the acquisition, commissioning an independent review, establishing the secretariat—as you know—continuing to identify opportunities in the supply chain, providing annual reports to Parliament, etc.

The government has responded. Is this enough? Is this sufficient? The point is that lessons are learned every time we do business in this place and we hear testimony. This is why I think the duty and the responsibility of the public accounts committee is just that: accountability and oversight.

We thank you for being here today. I would certainly ask for your comments and/or your suggestions. The government has already taken a number of steps. Is there anything else you, with the benefit of hindsight, would suggest at this point that the government can do to adjust the process in future? This process was started back in the early 1990s, and we've taken it to the point we are at today. No dollar is significantly expended in acquisitions, but decisions have to be made going forward.

What would you suggest, so that we don't run into the situation of this happenstance again?

The Chair: Briefly, Mr. Ferguson.

Mr. Michael Ferguson: Thank you, Mr. Chair.

Certainly I would be happy to give some further thought to that, but I think the critical thing for me—again, I haven't been through the government's plan—is making sure that there is a very clear statement of purpose for what is expected to happen from this point on, and that people understand what they're being tasked with. I think that is the critical point.

The Chair: Thank you very much.

We'll move over to Mr. Kellway. You, sir, now have the floor.

Mr. Matthew Kellway: Thank you, Mr. Chair, and through you to the witnesses.

To go back to where I left off, I was asking about the comment in 2.76 about parliamentarians being told misleading information, National Defence knowing that costs were likely to increase based on communication....

I take it that the communication, the information, that those costs were going to increase is related to the letter referred to in 2.64 from the U.S. Under Secretary of Defense for Acquisition. Is that correct? Is that the information?

Mr. Michael Ferguson: I'll ask Mr. Reed to answer that question.

Mr. John Reed: Thank you.

Yes, that letter, but also just general knowledge of participation in the U.S. joint strike fighter program. There were a number of problems, and well-known cost increases. The technical review was under way.

So there was a lot of information available that spoke to potential delays and cost increases.

Mr. Matthew Kellway: Okay. Thank you, Mr. Reed.

When it says, in 2.64, that “National Defence received formal communication”, does this indicate that it's a letter that went to the Minister of Defence?

Mr. John Reed: I believe the letter was addressed to the assistant deputy minister of materiel, but I'll have to get back to you and confirm that.

Mr. Matthew Kellway: That would be much appreciated.

It's interesting, your comment about the kind of wealth of information about cost increases. I've made the point before that these things are publicly available, but certainly as per the report, the joint strike fighter office in the States was providing Canadianized figures to National Defence about costing. We know that those indicated cost increases year over year.

I know, Mr. Ferguson, in my last round of questioning you said it's better to direct it to other folks, perhaps, but because we have you here today, I'd like to know what you know, or Mr. Reed knows, about where those JSF cost estimates were going into our department and who was aware of those.

• (1030)

Mr. Michael Ferguson: I don't have the details of that. I will ask Mr. Reed to tell you what he might know on that.

Mr. John Reed: Again, we're referring to what's known as the bilateral cost breakdowns. Every partner, after the U.S. Department of Defense produces their selected acquisition report, receives a bilateral report specific to their purchase profile. That would have been received by, I'm sure, a number of individuals in National Defence, certainly at the level of assistant deputy minister of materiel, who was managing the acquisition at that point.

Mr. Matthew Kellway: Thank you.

In your report, one of the concerns expressed is that these budgets have been “treated as a maximum by National Defence”. You expressed concerns about this being a developmental project and yet the absence of risk mitigation to deal with escalating costs.

This brings me to my great curiosity about this report. In the conclusions, and the fact that both National Defence and Public Works disagree with the conclusions of the report, you set out, in my view, a scathing report on the absence of due diligence within those departments.

How are we to reconcile the facts as laid out in this report with the fact that National Defence and Public Works are saying, “It's not our responsibility; it wasn't us”? Where do we go with that? Whose responsibility is it, then?

Mr. Michael Ferguson: What we did was we conducted an audit that was looking at the question of whether due diligence was applied. We defined what we meant by “due diligence”. We went

through that process, and we came to the conclusion that there were enough weaknesses in what occurred—and we lay those out in the chapter—that we had to come to the conclusion that due diligence was not applied.

Mr. Matthew Kellway: I'm sorry to interrupt, but... No, I appreciate that, but let me put it this way, then. In terms of the response from the departments to your conclusions, did they set out reasons saying “it's not us”?

Mr. Michael Ferguson: I was getting to it. It's simply that to find out their exact reasons why they disagree, you need to ask the department for that—what their reasons were and why they disagree. We felt that we laid out in the chapter enough rationale that you would conclude they did not exercise what they needed to do for us to conclude that due diligence didn't apply—

Mr. Matthew Kellway: Do you know, Mr. Ferguson, what their reasons are? Did they express those reasons in response to the report?

The Chair: Very briefly, Mr. Ferguson.

Mr. Michael Ferguson: Again, Mr. Chair, I think it's best if the departments respond to that. Simply, they concluded—

The Chair: No, no, sorry, Mr. Kellway.

I'm sorry, Mr. Ferguson. You may continue.

Mr. Michael Ferguson: Simply, they sent us a letter saying they disagreed, and I don't remember any further details of it right now.

The Chair: Very good. Thank you.

We're moving on to Mr. Alexander.

I understand that you'd like to split your time with Mr. Hayes.

You have the floor, sir.

[*Translation*]

Mr. Chris Alexander: Thank you, Mr. Chair.

I want to begin by commending Mr. Ferguson on the quality of his French. We heard you say you were determined to become fluent in the language of Molière, and today we see you have made great strides. On behalf of all of us, congratulations.

[*English*]

On life cycle, you described the reasons for selecting 36 years as opposed to the previous DND standard of 20 years. Has the Auditor General's office used this longer life cycle framework in previous audits or was this the first time?

Mr. Michael Ferguson: Thank you.

The 36 years is not our number and not our estimate of the life cycle. It was in fact National Defence's estimate of the life cycle. Therefore, by definition, to apply life cycle costing we felt that it should include the whole 36 years, since that is the estimated life cycle.

Mr. Chris Alexander: So in fact National Defence had two life cycle projections—one for 20 years and one for 36 years?

Mr. Michael Ferguson: My understanding is that National Defence does have the numbers for 36 years, but the numbers that have been brought forward for decision-making purposes and used, for example, in response to the Parliamentary Budget Office numbers, were based on 20 of those 36 years.

• (1035)

Mr. Chris Alexander: But would you agree, Mr. Ferguson, that the operational costs on a yearly basis, on an annual basis, whether it's a 20-year projection or a 36-year projection, are similar to the costs of our current fleet of CF-18s, as reflected in annual budgetary exercises?

Mr. Michael Ferguson: Certainly, we have seen testimony in the United States where there was one estimate that the cost of operating the F-35 would be more than the cost of operating the CF-18, simply because of the technical sophistication. I don't know specifically, and I think that's again something that National Defence needs to explain, but there are some estimates that would indicate that the F-35 could be more costly to operate.

Mr. Chris Alexander: I was asking about our estimates made so far, though. They are similar to the annual budgetary commitment made for the purposes of operating the CF-18 fleet. Am I not right?

Mr. Michael Ferguson: Again, for clarity, I think it's best if the department answers that question of how they develop those numbers.

The Chair: Mr. Hayes.

Mr. Bryan Hayes: Thank you.

I'm looking at your chart. Exhibit 2.5 speaks to "Identification Phase", "Options Analysis Phase", and "Definition Phase". I have a specific question. This project initiation started in January 2010, and I'm just trying to understand this life cycle costing, because this chart indicates that the total project life cycle costs are estimated during the options analysis phase. Then, during the definition phase, total project cost estimates are revised. So this whole process is one of a moving target and always a revision of costs.

Obviously, as you move further forward in a project, you become more knowledgeable, so I'm trying to understand the fact that life cycle costing, you indicate, wasn't provided in full by the department. But this chart suggests that it would have been premature to have those costs in full, considering where we actually are in the project management cycle. Can you comment on that?

Mr. Michael Ferguson: Thank you.

Certainly, that was one of the prime issues we raised in the whole chapter: things seemed to be out of sequence. We really felt that some of these processes or some of these things needed to have been put in place earlier than they were. It wouldn't have been a matter of them having done the life cycle costing too early; it would be a matter of them not having put some of these other phases in place early enough.

Mr. Bryan Hayes: Would you agree with my statement that life cycle costing is a moving target and that the project costs are a moving target and that the reality is that everything about this project is an estimate until we clearly understand the costs moving forward?

The Chair: Go ahead briefly, please.

Mr. Michael Ferguson: Certainly life cycle costing is an estimating process. But the mismatch that was occurring in all of this was that, as the decisions seemed to be taking the government closer to the actual acquisition of the F-35 and the announcement in 2010 of the intention to acquire the F-35, it would be important to make sure that the decision was based on having full life cycle costing, based on the best information available at the time.

The Chair: Thank you.

Mr. Byrne, you have the floor, sir.

Hon. Gerry Byrne: Thank you, Mr. Chair.

Would it be fair to say that at the time of the audit, the Department of National Defence identified a number of tactical uncertainties and identified a relatively high level of risk surrounding the F-35 prototype that might prevent the aircraft from being fully suited or best suited to the Canadian armed forces' needs, as outlined within the statement of operational requirement?

• (1040)

Mr. Michael Ferguson: Thank you.

I don't think that's something I can comment on. You know, we did say in the report that it was important for National Defence to consider the risks and to make sure they had appropriate risk-mitigation strategies in place.

Hon. Gerry Byrne: But you do identify in your report that the Department of National Defence noted this project as being high risk.

Is that correct, Mr. Reed?

Mr. Michael Ferguson: In actual fact, we found—and it's quoted in one of the paragraphs, though I don't remember exactly which one—that it wasn't until late in the program that they finally increased the risk assessment up to medium. I don't think at any point in time the overall project was designated as a high-risk project.

Hon. Gerry Byrne: But there are technical deficiencies that may or may not meet the standard of operational requirement—is that correct?—as identified by the Canadian armed forces. You reviewed the operational requirements.

Mr. Michael Ferguson: We didn't do a comparison of the F-35 to operational requirements. What we were looking at was process and whether the operational requirements were prepared when they should have been prepared. We weren't trying to assess whether or not the F-35 was the right jet.

Hon. Gerry Byrne: Thank you, Mr. Ferguson.

Mr. Reed, you interviewed 140 people within the Department of Public Works and Government Services, Industry Canada, and the Department of National Defence. Why didn't you just interview the deputy ministers? Would it be fair to say that just interviewing the deputy ministers would not have given you a fair or reasonable indication of the performance of this procurement process?

Mr. John Reed: It's a very normal practice for us to interview a wide range of officials to gain an understanding of the topic we're auditing, and as the audit moves forward, to use interviews to collect additional evidence, so, no, I think it was a very standard practice to do widespread interviews.

Hon. Gerry Byrne: Thank you, Mr. Reed. Perhaps we, as a committee, should follow your lead on that and do the same.

Is it fair to say that if someone feels their behaviour is acceptable and of a high standard, they'll probably continue that behaviour?

Mr. Ferguson, I'll ask you that, given your point of view as a long-time legislative auditor. If a government rejects every conclusion and criticism that you've found within your report, is it likely that they will simply repeat that behaviour because they feel it's of a high standard? With your experience as a legislative auditor, would that be fair to say?

Mr. Michael Ferguson: I'll respond to that simply by saying that the department agreed with the one recommendation we did make in the report. They disagreed with our conclusions, but they did agree with our recommendation.

Hon. Gerry Byrne: You don't have anything to offer us in terms of when a government rejects every conclusion that you reached in your report? It's not really of essence or material that they may repeat that behaviour again because it's acceptable, to them?

Mr. Michael Ferguson: That question is a bit too general for me to make a statement on. Again, the department disagreed with our conclusions. We felt that we laid out very clearly in the report where there were significant weaknesses in the due diligence. They did agree with our recommendation.

Hon. Gerry Byrne: The government has not indicated to you, to your office, or to anyone that they've accepted the conclusions of your report. In fact, you're still operating under the understanding that they do not accept the conclusions of your report.

From your experience as a legislative auditor, could you provide us with any commentary or opinion on what that says for ministerial accountability? In your experience as a legislative auditor—

The Chair: You're running out of time, Mr. Byrne.

Hon. Gerry Byrne: —can a minister actually say one thing and the department say another, and there be no confusion between the two? Or is that a matter of concern to you?

Mr. Michael Ferguson: Certainly we received letters from the deputy ministers of the departments indicating that the departments disagreed with our conclusions. That's always a concern for us. That's why we did have a discussion with them towards the end of the audit. We felt that we arrived at the appropriate conclusions.

But it's always a concern for us when the departments disagree with our conclusions.

•(1045)

The Chair: Very good. Thank you.

Mr. Chris Alexander: Mr. Chair, I have a point of order, please?

The Chair: You have a point of order? You're not a member of the committee but you have a point of order?

Mr. Chris Alexander: Mr. Byrne—

Hon. Gerry Byrne: Mr. Chair, I don't accept this. We have a protocol in this committee.

Mr. Chris Alexander: Mr. Byrne said “asserted”—

The Chair: No, no, that's a—

Mr. Chris Alexander: —and the government does not accept the direction—

The Chair: Shut off that mike!

Hon. Gerry Byrne: What is the point of order?

The Chair: Stop it right now! Order! What the heck's going on here?

Mr. Alexander, you are a guest here and I expect you to follow the rules, and the rules are that mike stays off and you are done.

Thank you. And I—

Mr. Chris Alexander: I expect Mr. Byrne to tell truth.

The Chair: Excuse me, if you say one more word, there will be consequences. I strongly advise you to remain quiet.

Thank you, Mr. Ferguson. We very much appreciate your attendance here today and we thank you for your indulgence.

I have one quick question that I want to squeeze in.

Under “Observations” on page 10, you mentioned that officials from National Defence have contributed to all phases of the project for 15 years, that we've had people on the senior decision-making and technical committees from day one, and we're spending hundreds of millions of dollars incenting industry in Canada to be in a position where they could bid on the worldwide contracts that will result from the F-35 production.

In terms of the practical inevitability of whether or not the F-35 would be the choice, or whether there was any chance that another plane could be chosen, how could another plane be an option at all, given that we've had people on the senior management committee and on the technical committee for almost 15 years and we've spend hundreds of millions of dollars? From a practical point of view, how realistic was it or is it that the government was ever going to pick anything other than the F-35?

Mr. Michael Ferguson: Thank you, Mr. Chair.

The item in the chapter that speaks to that is that, in 2008, National Defence, themselves, said it would be exceedingly difficult to hold a fair competition that includes the F-35. That's why we were concerned, in the chapter, that many things were taken out of sequence and proper analysis wasn't done when it needed to have been done. It was simply because each step along the way was leading more and more toward the F-35. That's also why we felt Public Works needed to have been brought in to this whole exercise, before 2010, in order to sort out what the proper procurement strategy should be.

We were concerned that the various stages along the way were leading more and more toward the acquisition of the F-35, and there needed to have been more due diligence applied throughout that process.

The Chair: Very good. Thank you so much.

With that, colleagues, we will conclude.

Mr. Ferguson, you are excused. Thank you again, sir, for being here today. We appreciate it.

Colleagues, this committee meeting now stands adjourned.

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