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Chair

Mr. David Christopherson

Standing Committee on Public Accounts

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• (0850)

[English]

The Chair (Mr. David Christopherson (Hamilton Centre, NDP)): I now call this 45th meeting of the Standing Committee on Public Accounts to order.

Colleagues, you will know, as per previous direction of this committee, that we've asked the Auditor General to return once again. The order of the day in the first hour and normal rotation of questions and comments is regarding chapter 2 of the spring report. The second half will be on estimates.

With that, I will welcome Mr. Ferguson. I understand you've fully recovered, sir. It's good to have you back, and I'm glad you're back in the pink of health.

If there are no interventions in terms of procedure, I will move us along.

I understand you want to do some opening remarks. Very good. With that, sir, you have the floor for your opening remarks. Please begin, Mr. Ferguson.

[Translation]

Mr. Michael Ferguson (Auditor General of Canada, Office of the Auditor General of Canada): Good morning, Mr. Chair.

I am pleased to be here again to discuss chapter 2 of my spring report. I am accompanied by Assistant Auditor General, Jerome Berthelette.

We have followed the committee's deliberations and will be pleased to answer your questions.

I would like to take this opportunity to address a few points that have come up in the course of this committee's work.

[English]

To begin with, I would like to address the issue of life-cycle costing for the acquisition of goods and services. Life-cycle costing is required by Treasury Board policies and is also included in the Department of National Defence's own project approval directive. This directive states the following:

The life-cycle cost estimate includes estimates of the total cost of the resources needed to complete project activities and deliver the product system infrastructure, i.e., project acquisition costs, as well as the cost of the resources needed to operate, maintain, and dispose of the product system infrastructure, i.e., ownership costs.

While we believe in and support life-cycle costing, it is not a requirement established by the Office of the Auditor General.

[Translation]

As illustrated in exhibit 2.6 of the chapter, life-cycle costing includes two main categories. The first is capital costs. The second is the cost of personnel, operating, maintenance and contracted sustainment. All figures appearing in exhibit 2.6 are National Defence's estimates and not those of the Office of the Auditor General.

[English]

As described in the chapter, we believe that the Department of National Defence did not include some significant cost elements in a testament of life-cycle costs. In addition, many of the costs are not yet known or cannot be reliably estimated. These are itemized in paragraphs 2.71, 2.72, and 2.73 of the chapter.

The estimated life of the F-35 is about 8,000 flying hours per aircraft. The estimated life of the aircraft is calculated in years, based on the number of anticipated flying hours per year per aircraft.

Working from estimates of contracted sustainment costs over 36 years provided by the joint strike fighter program office, National Defence is able to estimate costs over 36 years.

[Translation]

Mr. Chair, I am concerned with suggestions that accurate estimation and the inclusion of personnel, operating and maintenance costs are not important, since they would be incurred regardless of the aircraft selected to replace the CF-18. National Defence states that its \$16-billion estimate is already within its base budget. It is important for decision makers and parliamentarians to understand National Defence's estimate for personnel, operating and maintenance costs even though these estimates are already within the existing budget allotment.

[English]

National Defence currently assumes that the F-35 fleet costs will be similar to those related to the CF-18 fleet. We reported on a similar situation in chapter 6 of our fall 2010 report on the acquisition of military helicopters. Specifically, we noted that National Defence initially assumed that the personnel, operating, and maintenance costs for the new Cyclone maritime helicopter would be the same as those for the legacy Sea King it was replacing. National Defence later realized that these costs would exceed those associated with the Sea King by \$1.1 billion over 20 years.

[Translation]

Finally, Mr. Chair, I would like to state for the record that we stand behind all of the facts presented in the chapter, and note that these facts were accepted by the department.

This concludes my remarks. We would be pleased to answer any questions the committee may have.

Thank you.

[English]

The Chair: Very good. Thank you, Mr. Ferguson. You did have an opening statement, didn't you, sir?

With that, we will begin the rotation, as is normal procedure, with Mr. Saxton.

Mr. Andrew Saxton (North Vancouver, CPC): Thank you, Mr. Chair.

Thank you, Auditor General and Mr. Berthelette, for being here today.

Chapter 2 of your spring report is different from most other reports, in the sense that it was audited before the actual purchase took place. It's an audit of procurement.

What are the benefits of examining a purchase such as this before the procurement actually takes place?

Mr. Michael Ferguson: We decided to do this audit primarily because of some of the other work we had done in National Defence. We felt that we could provide the most value by doing the audit before the purchase was completed in order to identify any weaknesses that could be rectified during the process, rather than at the end of the process.

• (0855)

Mr. Andrew Saxton: Thank you.

The government has taken action and implemented a seven-point plan designed to address the issues you flagged in your report. It has gone even further to ensure that the process to replace Canada's fighter jets is robust, fair, transparent, and accountable.

Do you believe that the government's response to your report provided a measured and adequate response to your findings?

Mr. Michael Ferguson: We presented the report in April. We came to our conclusions, our observations, and made our recommendation. As I understand it, the government has put forward its position.

We haven't gone in and audited that response in any way on its adequacy. We certainly acknowledge that the government has responded to the report and has indicated it will take action.

Mr. Andrew Saxton: I appreciate that you haven't actually audited the response, but in your opinion does the response adequately address your concerns?

Mr. Michael Ferguson: In the chapter we made a recommendation that the full costing information should be brought forward. We also felt that there were existing policies and procedures in place that needed to be properly followed to see the procurement through to the end.

Without specifically going through the government's response and assessing it against criteria, I can't give you a yes or no answer as to whether it's adequate. We certainly acknowledge that the government has responded. We are glad to see that the government has responded. But we haven't done any work on trying to assess the adequacy of the response.

Mr. Andrew Saxton: Thank you.

The government has committed to tabling annual cost estimates in Parliament and providing regular briefings. Do you believe these measures will be useful in making sure Parliament is kept informed of the ongoing process?

Mr. Michael Ferguson: The recommendation we made in the report was about making sure that financial information was brought forward. The critical thing is to ensure that the financial information is complete and any assumptions in that financial analysis or information are clearly articulated.

The fact that financial information will be brought forward is a good step. That's what we were looking for. The rest will be to make sure that information is fulsome and includes any explanations it needs so people can understand it.

Mr. Andrew Saxton: Okay. Are there any other points that you would recommend for us to be aware of going forward to ensure that Parliament is kept informed of the process?

Mr. Michael Ferguson: As I think I said last time, in terms of moving forward I think the critical thing is that the people who are charged with moving forward on this have a clear statement of purpose so that they clearly know what is expected of them. If they have that, if they understand exactly what it is they are supposed to do, they have that clear statement of purpose, then I think the rest of the process will come out of that. I believe that's the fundamental basis for what needs to happen.

Mr. Andrew Saxton: Okay.

Thank you, Chair.

The Chair: Thank you very much, both of you.

Now we go to Mr. Allen. Mr. Allen, sir, you now have the floor.

Mr. Malcolm Allen (Welland, NDP): Thank you, Chair.

Welcome back, Mr. Ferguson and Mr. Berthelette.

Sir, if I could start with your point 11 in your final statement, you said, "Finally, Mr. Chair, I would like to state for the record that we stand behind all of the facts presented in the chapter", referring, obviously, to chapter 2. So let me refer to two letters: one dated February 16, 2012, to you, Mr. Berthelette, from Public Works and Government Services Canada; and a June 1, 2010, letter from Mr. Dan Ross to Mr. Tom Ring.

Let me start with the first letter, which was to Mr. Berthelette. On page 3 it talks about your report, chapter 2, and concerns the implications of the Department of Public Works signing off based on an SOR, statement of operational requirements. In the letter, Public Works are inferring, and let me quote from the paragraph:

This implication is based on a concern raised by PWGSC staff to senior management that the Department had not reviewed the Statement of Operational Requirements. However, in the absence of the final Statement of Operational Requirements, we obtained written confirmation of the two key operational requirements that ultimately distinguished the F-35 from all its competitors. This confirmation was obtained from the Assistant Deputy Minister-Materiel, DND...

—who is not identified in here, but who I'll identify as Mr. Dan Ross—

who had intimate knowledge of the Statement of Operational Requirements.

The letter then states, "The intent of this letter is to confirm DND's requirement for a fifth generation fighter...", basically asking Public Works to go ahead and sole-source.

Am I misreading these two, sir, in the sense that Public Works is saying they didn't read the SOR, they didn't see an SOR, but Mr. Ross is the expert, and since he told them it's okay to have a sole source then they should just go ahead and say go ahead and have a sole source, or am I just absolutely wrong about that?

• (0900)

Mr. Michael Ferguson: What we pointed out in the chapter was that we felt that Public Works did not have enough information or the information they should have had in terms of approving the sole-source request. So that's where we fundamentally identified that there was a weakness in the process: it was in that area that Public Works should have been provided more information from National Defence in their request for sole-sourcing.

Mr. Malcolm Allen: Thank you, sir.

I would point out, to re-emphasize in that one paragraph of their letter to Mr. Berthelette, it says "in the absence of the final Statement of Operational Requirements".

So to you, sir, clearly, your facts in the chapter are absolutely correct, and even though Public Works was disputing the facts, according to some of their correspondence they didn't actually see the statement of operational requirements when they made a decision, because it wasn't provided to them.

I'm not asking you to confirm that; I think you've actually said that, so I'll leave that to the side.

The other piece of action in this letter I would ask you to comment on—and I'm not sure that you can—is on the signed page of this document, again the same letter, where there's a handwritten piece that says:

P.S. At the request of the OAG, this letter was re-signed on the 17.02.2012 with the "Protected A" clearance as opposed to "Secret" as originally sent on 07.02.2012.

Can you tell us why that request was made and why they acquiesced to the request? If they thought it was "Secret" to start with, why did they change it to "Protected A"?

Mr. Michael Ferguson: The reason we requested them to reconsider the classification of the letter was in order that we could reflect information from the letter in the report. That's why we asked them to reconsider that classification.

They would have been the ones, obviously, that had to then make the assessment of whether it could be reclassified or not, and they did do that.

Mr. Malcolm Allen: Well, sir, you should be commended for actually shining a light, because if they had been left alone and not asked, they would have kept it a secret and we'd never know.

But let me go back to what Mr. Fonberg described as the "definitions" versus "options analysis" phases.

The Chair: Real quick, Mr. Allen.

Mr. Malcolm Allen: Basically, what has happened, sir, is that they changed it last year, but I noticed that in their letter they actually said that they made the definitions phase start in 2010. Do you concur with that?

Mr. Michael Ferguson: Mr. Chair, that's not something I can give a very short answer to. I would have to look at that to determine whether I could agree with that or not.

The Chair: Very well. Mr. Allen is out of time. What I'll ask Mr. Allen to do is have his colleagues consider putting the question.

Also, Mr. Ferguson, if it's appropriate to provide that information in the context of another answer, we'll give you just a little flexibility to do that, but time has expired for Mr. Allen.

I will have to move us now to Vice-Chair Kramp, who now has the floor.

• (0905)

Mr. Daryl Kramp (Prince Edward—Hastings, CPC): Thank you, Chair.

We welcome you back. We do appreciate you coming back. We're glad to see you looking fit and healthy—maybe not ready to run a marathon, but certainly getting well.

Given the inherent uncertainties when we are embarking on a developmental program such as this, how can we ensure in our process that we maintain the flexibility that's needed to respond to the various changes that will occur in the process? What would you recommend? How do we maintain the flexibility, given the constraints and the partnerships involved?

Mr. Michael Ferguson: Again, it's not something we went into a lot of depth on. Fundamentally, though, what we felt needed to have happened in this was that because it was a developmental type of project, because it was different, National Defence and Public Works should have gotten together very early in the process to determine just what exactly those steps would need to be.

This would strike me as the type of project where, because the government was going to be involved in both the sort of development side and then later the procurement side, or potentially the procurement side, it would be important to make sure there were the necessary controls in place to protect both sides of the project and then identify when those two are starting to merge, so that it moves from a development into a procurement project. We felt those lines were blurred, and that was what ended up causing some of the problem.

So I can't give you specifics, but what I can say is that we felt this was something that Public Works and National Defence should have worked out much earlier in the process, to make sure that both sides, the development side and the procurement side, were going to be able to unfold as they should.

Mr. Daryl Kramp: Fine. Thank you.

Lessons learned, of course, hindsight.... If we all had the benefit of 20/20 hindsight, it would be a perfect world, but it's important that we take the lesson learned from this process and see, of course, if there are other applications in government procurement, either military or non-military. Would that be a wise thing to do? And do you think there is a generic lesson out of this that we could apply in a broad-based manner?

Mr. Michael Ferguson: I think certainly there are a number of lessons that can be learned from this and that need to be learned. I think an important part of what this chapter is about is making sure that those involved in these types of procurements do look at ways to try to improve these types of procurements.

Again, because this was going to be a very different type of procurement, it would have been important right up front to lay out what the ground rules were going to be, what the roles and responsibilities of each of the parties were going to be. By definition, this wasn't going to be a textbook type of procurement. So it was something where it would have been important up front to lay out what those roles and responsibilities were going to be. That was one thing.

Certainly I think the other two lessons, the other two main areas we identified, were good risk mitigation strategies when you're dealing with this type of a project with uncertainties, and then good and fulsome cost information.

So I think there are definitely areas where lessons can be learned for future procurements.

Mr. Daryl Kramp: Fine, thank you very much.

I have one more question, if I may, Chair.

The Chair: You're good.

Mr. Daryl Kramp: Would you characterize this report as a tool to flag the deficiencies—obviously there were some deficiencies in this process—and a guide to ensuring that we move in a proper manner to replace the Canadian fighter fleet, to make sure it's robust?

Some people obviously don't want to see us have a replacement. There are those, even within the parliamentary precinct, who don't believe we need more equipment for our military. Some people would say this report is designed to completely put an end to the process to replace Canada's fighter fleet. Would you concur with their assessment, or do you think the greater intention is to flag the deficiencies?

• (0910)

Mr. Michael Ferguson: I think all our reports have two purposes. One is to improve the way government delivers services to the citizens of the country. Certainly whenever we can identify weaknesses or issues within a particular process, our goal is that those be dealt with.

The other prime outcome we expect from our reports is accountability, that the information is used, that the right questions get asked from the reports to make sure there is accountability for the decisions that are made.

I think those are the two prime purposes, and I think this chapter is no different from any other from that perspective.

Mr. Daryl Kramp: Fine, thank you. I appreciate that comment.

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

Now over to Mr. Ravnat. You have the floor, sir.

Mr. Mathieu Ravnat (Pontiac, NDP): Mr. Ferguson, I'm having some difficulty in understanding something, and I hope you can enlighten us. At the same time as the government is saying it accepts your conclusions and that it will go forward with some form of reparation, they attack your findings and your methodology. Do you know why? It seems like a contradiction.

Mr. Michael Ferguson: I can't respond without having a specific area to address.

We presented the report. The department has agreed with the recommendation we made. The government has indicated they intend to put their action plan in place. Again, we haven't looked at it to—

Mr. Mathieu Ravnat: Mr. Ferguson, that might be a question for the Minister of National Defence.

Mr. Michael Ferguson: Certainly.

Mr. Mathieu Ravnat: Okay.

Hopefully we'll hear from the Minister of National Defence at this committee, but I guess we'll see.

In point 7 of your opening comments, you talk about "Working from estimates of contracted sustainment costs over 36 years provided by the Joint Strike Fighter Program Office...".

I understand we're signatories on that joint strike fighter program office, and that that office uses 36 years. Why didn't the Government of Canada use 36 years?

Mr. Michael Ferguson: Certainly the joint strike fighter office provided 36 years' worth of sustainment cost information. The life-cycle costing policy requires identification of the costs over the full life cycle.

You'll notice that National Defence's policy, as I read it, even refers to the cost of disposal. By definition, if you have to include the cost of disposal, the expectation would be that you have to go out to the full life of the particular asset.

That was something we identified. We felt that life-cycle cost information should have been for that full life cycle of the aircraft, rather than just for 20 years.

[Translation]

Mr. Mathieu Ravnat: I am going to move on to another question.

A letter signed on February 24, 2012, by Mr. Fonberg, Deputy Minister of National Defence, and Mr. Guimond, Deputy Minister of PWGSC, states that "some components of this risk analysis may not have been made available to the OAG for reasons of Cabinet confidence".

Is it common practice for ministers not to provide you with information and to claim reasons of cabinet confidence?

[English]

Mr. Michael Ferguson: Certainly we don't have access to.... We will get access, for example, to memorandums to cabinet, but we have an agreement about what we do and do not disclose when we're looking at that type of information.

We felt we had access to enough information in this report that we could still draw our conclusions. In fact our legislation requires us to bring it to the attention of Parliament if we feel in any instance that we do not receive information we need to receive.

We felt we received all of the information we needed. Some of it would have been in memorandums to cabinet. We have to be very careful about how we refer to that type of information

The other point I want to make in terms of your question is that the types of analysis and things we were looking for were analysis we felt should have existed in departmental documents. They're not analysis you would wait until you're preparing a memorandum to cabinet to actually prepare. We would have expected to see those types of analysis in a format that was not cabinet confidential.

• (0915)

Mr. Mathieu Ravnat: Just to be clear, there was certain information that was withheld by the cabinet that should have been in the different ministries and accessible to you?

The Chair: That's your time, Monsieur.

You can answer, Mr. Ferguson.

Mr. Michael Ferguson: If I understood the way the question was posed, that wasn't what I was saying. I'm sorry for the confusion.

What I was saying was that we did receive all the information we felt we needed to receive in order to draw our conclusions. There were certain types of analysis we felt should have been prepared and should have existed as part of normal departmental process. It shouldn't have been something they would have waited to prepare only to include in the memorandum to cabinet.

The Chair: Thank you. I'm sorry, but time has expired.

Over to Mr. Shipley, who now has the floor.

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

Thank you, Auditor General, for being here.

We recognize that during this whole process there's actually been no money spent. There's been no acquisition. There's been no planes bought. Is that true?

Mr. Michael Ferguson: There are two parts to that. The second part, in terms of no planes purchased, is correct. On the first part, in terms of no money spent, we identified a significant amount of money that was spent in terms of the development part and the industrial benefit part of this program.

Mr. Bev Shipley: Great. I'm glad you touched on that. From what we know, there's been incredible industrial benefit for the 60 or 70 companies that have garnered \$425 billion in contracts.

Recognizing that, can you talk to us a little about some of the challenges you found in doing an audit at this stage in the process? And I have a question to follow that.

Mr. Michael Ferguson: Thank you.

The obvious challenge when you're looking at something in mid-process is that not everything has been completed. However, there were enough milestones along the way that we were able to identify that what needed to be done at those points in time had in fact been done.

That was really what this was about. It was a normal audit of process that was a long process. It was done during the process, which meant we had to identify the specific milestones we were assessing against.

Mr. Bev Shipley: Thank you.

I have had some questions, actually. I'm not saying we shouldn't be doing this. I'm just trying to understand.

In your comments at the start, you talked about the Treasury Board policies. Then I read that "the life cycle cost estimate includes...", which seems to me to be more of a definition than a policy.

We had been told by Treasury Board that for a purchase of this type—and I think Treasury Board and National Defence had both been using 20 years all along—as you move beyond 20 years, speculation on the accuracy of costing becomes very difficult. I think it's very likely difficult to be accurate at 20 years, and more so since we now have 20 years, 30 years, and 36 years. For some of us it's hard to understand, because everyone thinks and says these are the true times in terms of a life cycle, whereas I understand the life cycle to be the time during which we own that acquisition.

Why do we have three timelines, and how do we justify each of those?

• (0920)

Mr. Michael Ferguson: I think there are a number of pieces to your question.

As I tried to indicate in the opening statement, the 36-year life was not our number. It was a number based on information National Defence was receiving from the joint strike fighter office. That information included 36 years' worth of sustainment costs. The life cycle of the aircraft is based on the total number of hours the aircraft is expected to be able to fly, which is 8,000 hours. You simply divide that by the number of hours they expect to fly the aircraft each year. You come up with the number. That was 36 years, and it wasn't our estimate. It was in the information.

Mr. Bev Shipley: It was based on 8,000 hours and simple math.

Mr. Michael Ferguson: Right.

The other point, about the 20 years versus a longer life cycle, that, to me, is one of the defining things about this type of a program. This purchase was different. This was a development program. This was for a very complex asset. One of the things we identified that was not included in their life-cycle costing, for example, was the cost of attrition of aircraft. If the intention is to maintain 65 aircraft, then with attrition you would expect there would have to be some replacement of aircraft. That attrition and that replacement would have to be carried out over the whole 36 years, not just 20 years.

I think it was important in this one, because these are very long-lived assets, because they are complex, because you have issues like attrition, and because they had the information, that the parties involved recognize that they needed to go beyond just the normal 20 years for this particular acquisition.

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

We'll go over now to our second vice-chair, Mr. Byrne.

Welcome back, sir. You also are returning from a bit of an illness. We're glad to have you back with us, sir. You now have the floor.

Hon. Gerry Byrne (Humber—St. Barbe—Baie Verte, Lib.): Thank you, Mr. Chair. My pneumonia is feeling top shape now.

Mr. Ferguson, you emphasized in your opening remarks the notion of life-cycle costs. This was a particular emphasis for you. During the course of your audit, which was concluded in the fall of 2011, were you able to confirm that the life-cycle costs of the F-35 were likely to be exactly the same as or similar to the life-cycle costs of the CF-18?

Mr. Michael Ferguson: We didn't try to analyze what the life-cycle costs would be. We didn't try to estimate whether they were going to be similar or not. We recognized that National Defence was saying they felt the additional costs beyond the contract for sustainment would be similar to those for the CF-18. We felt that was a pertinent piece of information that should have been disclosed. We didn't do an analysis ourselves on what the maintenance and operating costs would be.

Hon. Gerry Byrne: The Deputy Minister of National Defence, Mr. Fonberg, said to this committee just two or three weeks ago that he and the department are still of the opinion that the sustainment costs, the life-cycle costs, of the F-35 will indeed be a one-to-one ratio with the CF-18.

Do you have any information that may confirm or contradict that in an immediate or current context? I'll just give you the example of the Congressional Budget Office or other accounting bodies or other information that may have been received by the primary driving force behind this, which is the U.S. government. Have we received or should we be aware or consider that the costs may not actually be a direct one-to-one ratio with the CF-18?

• (0925)

Mr. Michael Ferguson: There have been, I believe, some references in the U.S. to the fact that if you do some comparisons of the F-35 to an F-18, the cost of maintaining a particular aircraft might be higher.

What that does is it simply means that it raises the types of questions that need to be asked. National Defence may have a

perfectly good reason for how that can be offset within their current budget envelope. The problem we have, I think, in terms of those costs is that National Defence for the most part has simply said those costs are in their budget, they're going to be the same, and they haven't provided enough information for people to understand whether that really is an appropriate assumption.

And that's what we feel they need to do: make it clear and defend that assumption that the costs are going to be the same.

Hon. Gerry Byrne: Thank you.

Would you be able to task officials within your office, if they have information assembled through outside sources concerning what the potential sustainment costs would be—such as information from the Congressional Budget Office or other sources—to provide that information to the clerk?

Mr. Michael Ferguson: We certainly could take a look and see what type of information we have. We wouldn't do sort of an exhaustive search of information.

Hon. Gerry Byrne: Understood.

Mr. Michael Ferguson: It would be whatever we had where there might be some references to sustainment costs. We could table them with this committee.

Hon. Gerry Byrne: Thank you.

Finally, on the notion of what are the life-cycle and sustainment costs that should be presented, not only to cabinet but to Parliament and to Canadians, we often talk in this committee about lessons learned. There have been lessons learned.

I'm approaching this from the point of view that there were lessons learned through the Chinook helicopter purchase. Chapter 6 of the Auditor General's report from a couple of years ago basically did say that the life-cycle costs should be complete and should carry forward the following types of information. That was agreed to by the government, I understand.

Also, the Standing Committee on Finance included specific references in a report that they prepared for Parliament indicating that full life-cycle costs should be included in the cost estimates, which were agreed...by the government.

The Chair: Place your question, please, sir.

Hon. Gerry Byrne: If we were to use that as a basis of what we now should expect—recognizing that twenty years ago we probably did things differently, ten years ago we did things differently, and even three years ago we did things differently—if we were to use that as a basis point, that just a couple of years ago we had the Chinook helicopter purchase exercise, to say that this is how we will report—

The Chair: Question, please, Mr. Byrne. You're way over.

Hon. Gerry Byrne: Should we have gotten different numbers for the F-35?

Mr. Michael Ferguson: Certainly some of the time period we were looking at in this audit was the same time period as the helicopter purchase, so the fact that we've identified that there were some similar issues in both cases was not particularly surprising.

But I think what this does indicate.... The fact that we are still talking about life-cycle costing and we are still talking about what's appropriate in life-cycle costing means that there needs to be some serious consideration about just how life-cycle costing is supposed to be applied. I don't know whether that is a Treasury Board responsibility or a National Defence responsibility, but the fact that there's still confusion about life-cycle costing and how it should be applied I think is indicative of the fact that it needs to be re-examined to determine the best way to apply it.

• (0930)

The Chair: Thank you.

Madam Bateman, you have the floor.

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

Thank you so much for being here, sir. We appreciate the detail you're giving us on this and that you're here yet again.

We've been discussing this for some time, so bear with me, if you will.

At the start of my little time slot, I just want to, for the record, get your recommendation on this issue. What was the essence of your recommendation on this very important chapter?

Mr. Michael Ferguson: For the record, the recommendation is contained in paragraph 2.77. I can read that into the record, if so desired.

The Chair: That's up to Madam Bateman. Would you like it read into the record, ma'am?

Ms. Joyce Bateman: Will it be in the record without the Auditor General reading it?

The Chair: Well, it's in the report.

Ms. Joyce Bateman: So the essence of it will be—

The Chair: I don't know about the essence, but the actual wording will be.

Ms. Joyce Bateman: The actual wording will be captured. That's great.

Okay. So now, in terms of the government's response, sir, can you confirm for us...? I mean, you're the Auditor General of this country. Are you satisfied with the government's response?

Mr. Michael Ferguson: The recommendation we made was presented to the department. The department's response to our recommendation was that they agreed, and they will continue to refine their life-cycle cost estimates and make them available to the public. In terms of our recommendation, that was what the department's response was.

Within the confines of the audit, we made a recommendation, and we got a response. The response was that they agreed and that they would do what we asked. We were satisfied with the department's response to that.

In terms of what the government has done since and what it has announced, again, that's not something I can comment on.

Ms. Joyce Bateman: I appreciate that you haven't audited the seven-point plan, sir, but as we go forward, we've recently had a

rather successful procurement policy. We want to learn from what we're doing. We're here to serve taxpayers with the best possible value. Could you just speak briefly to the secretariat framework and the fact that it's going to address your recommendations?

Mr. Michael Ferguson: The only specific recommendation we made was on the costing information, and that was agreed to by the department. The actual mechanism by which they do that really wasn't something that was concerning to us. It was just the fact that they would make the information public.

Ms. Joyce Bateman: I sure hope that at some point it does concern you, because it would be incredibly valuable for us to get your perspective on this seven-point plan.

I just want to move into one other part right now. A few of my colleagues have already spoken to the industrial benefits that accrue to many Canadian companies. I believe that more than 60 have already benefited from preparatory work. I believe that it's a \$425 million amount that has resulted already in concrete contracts. How are you examining this in your work?

I come from Winnipeg. This matters to the aerospace industry in Winnipeg, and this is a very important part of our economy.

Mr. Michael Ferguson: Really, in terms of the industrial benefits, what we looked at was the information being brought forward to decision-makers. We identified that there were a number of estimates in terms of the industrial benefits. They didn't always include the range of what industrial benefits could be expected.

Also, we identified that we were concerned that they included in the amount of potential industrial benefits an amount for potential contracts that would be available to industry in all partner countries. We felt that this wasn't well explained to the decision-makers. That was really, I believe, the main focus of what we looked at in terms of industrial benefits. It was the information brought forward about what to expect in industrial benefits.

• (0935)

Ms. Joyce Bateman: So the—

The Chair: Sorry, ma'am. You're right on the head. Thank you very much.

Ms. Joyce Bateman: Thank you very much.

The Chair: Moving on now to Madame Blanchette-Lamothe, you have the floor, ma'am.

[Translation]

Ms. Lysane Blanchette-Lamothe (Pierrefonds—Dollard, NDP): Thank you. I will be sharing my time with my colleague, Mr. Allen.

Mr. Ferguson, I have two questions for you.

In your report, it says that National Defence likely underestimated the full life-cycle costs of the F-35. What is at issue is a \$25-billion cost that was originally established in 2008. However, when he appeared before this committee, Mr. Fonberg said, and I quote:

[English]

Mr. Chairman, we actually tried to clarify with the Auditor General his comments about \$25 billion in 2008-09. We never had such an estimate. So you'd have to speak to him about where that estimate actually came from.

[Translation]

I would like to hear your comments on this. Does Mr. Fonberg deny having estimates that he actually had?

[English]

Mr. Michael Ferguson: We didn't do any of our own estimates or analysis. All the numbers included in the chapter are numbers we got from National Defence.

[Translation]

Ms. Lysane Blanchette-Lamothé: Thank you. I think it is clear.

In addition, an article was published yesterday talking about the various options that were available to us in addition to the F-35. The government is constantly telling us that all options will be studied to ensure that the best solution is the one that is proposed for replacing the CF-18. In your audit, did you have documents or other evidence that could confirm for us that other options actually were studied and that Canada's needs, that is, for taking part in wartime or peacekeeping missions, were clearly identified? Do we know whether other options were seriously identified? Do we know the bases on which the needs were identified?

[English]

Mr. Jerome Berthelette (Assistant Auditor General, Office of the Auditor General of Canada): Mr. Chair, I'll try to give a high-level explanation in response to the member's question.

National Defence has conducted a number of options analyses related to the next-generation fighter jet project and the decision as to whether to go ahead with the joint strike fighter. They assessed the jet against four other options early in the process, back around 2005. They assessed the F-35 and two other options around the time they were coming to make the decision in 2008, I believe. They used high-level mandatory capabilities to assess jets around the second options analysis, which was around 2008. They then set about establishing the statement of operational requirements, which should have been the basis upon which the final decision was made.

So yes, National Defence did consider other options. Yes, there was a basis for how they considered those other options.

Mr. Malcolm Allen: Thank you.

It's interesting, Mr. Ferguson, in reply to my colleague's comment about where you got the \$25 billion from, I appreciate the clarification they were DND's numbers. Mr. Fonberg either doesn't remember the DND numbers or didn't understand the question, because he clearly thought you were wrong. But clearly you're standing by the facts in your report. Is that correct? Is that what I'm hearing, sir?

Mr. Michael Ferguson: As I said in my opening statement, we absolutely stand by the facts in our report, and the facts were cleared and agreed to by the departments involved.

Mr. Malcolm Allen: I need Mr. Fonberg to come back and reply to why he told me that he didn't know what the \$25 billion was. I'll leave that for another day.

When we get to the defined options analysis phase, we seem to have discrepancies about where it's at. I think in your report, sir, you indicate in your timeline that by 2010 we were at what is referred to as the defined options phase. Is that correct?

● (0940)

Mr. Michael Ferguson: That's correct.

Mr. Malcolm Allen: I notice in the DND letter to Mr. Berthelette of February 7 that they also say the same thing, but under testimony here Mr. Ross actually said that they were now at the "options analysis" phase.

Can you help me understand why you believe they're at the defined stage? They believed in their letter to Mr. Berthelette that they were at the defined stage. Yet on May 1 Mr. Ross came here and said no, we're at the "options analysis stage"—and they actually changed a document that they put out last year, citing a typo error, changing it from "defined" to "options analysis"?

Mr. Michael Ferguson: That's really not something I can respond to. I think that's a question you would have to ask of them.

Mr. Malcolm Allen: So it would be fair to say, Mr. Ferguson—

The Chair: Sorry, Mr. Allen—

Mr. Malcolm Allen: —that maybe we should ask them—

The Chair: Mr. Allen—

Mr. Malcolm Allen: —to come back to answer that question.

The Chair: Mr. Allen. I'm sorry, sir. You're way over time.

Mr. Malcolm Allen: Thank you.

The Chair: Thank you.

Mr. Aspin, sir, you have the floor.

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

Welcome again, Mr. Ferguson. We appreciate you coming back for this second session.

I'm pretty excited about the industrial benefits this whole project will obviously produce for our country. I don't think we can look at this in a myopic form.

You quite clearly pointed out, sir—or it has been pointed out this morning—that some \$425 million in benefits has already been extended to Canadian companies throughout Canada. In effect, this basically could do for the aerospace industry what our shipbuilding contract is doing for the shipbuilding industry, although the shipbuilding industry has been concentrated in a few main areas and this is broadly based. It certainly will give us improved technology.

We are among the top three to five members in the world in terms of aerospace technology already, but it will certainly sharpen that ability. It will essentially catapult Canada as a leader in the aerospace industry and of course is in line with our government's objective on jobs, the economy, and long-term economic prosperity.

Mr. Ferguson, I would like to hear your comments relative to that particular opportunity.

Mr. Michael Ferguson: I believe that in the chapter we identified that the various departments did handle the participation of Canadian companies well throughout this project, that there were memorandums of understanding that were signed, and that Industry Canada and National Defence did a good job of bringing Canadian companies along into this process. We did, however, as I said earlier, have concerns about some of the estimates that were brought forward about the potential industrial benefits.

Mr. Jay Aspin: Thank you, sir.

Sir, this was also an audit on process, not acquisition. As such, when you are auditing a process, you are ensuring best use of taxpayer dollars, which is something this government is of course deeply committed to. What are the benefits of doing this earlier on in the options analysis stage, rather than after the acquisition?

Mr. Michael Ferguson: Again, this is a long process. This is a long acquisition process, and we felt, particularly given some of the things that we had found in past National Defence procurements, that it was important for us to do the audit at this point in time. We could identify specific milestones to audit against, and that would provide information to Parliament about whether this process was on track, or whether there were issues within the process, without waiting until it was finished.

• (0945)

Mr. Jay Aspin: Thank you, sir.

Mr. Ferguson, I just want to reiterate what you told us earlier when you came before the committee. You cited in your testimony that this whole process was indeed unique. It was different. As you pointed out this morning, it was complex, and it basically requires a new set of procedures and a new set of instruments. Could you comment on that? What were your feelings on that?

Mr. Michael Ferguson: If you look at the objective of this audit, our objective was to determine whether the departments involved exercised due diligence. You'll see that we define "due diligence" in the chapter fundamentally on the basis of good management practices and the types of information flow and analysis we would expect. We did not design this audit as a strict compliance audit, did the department comply with policy such and such?

The reason we did this is that we were recognizing that this was a unique and complex type of purchase, so it was important that the process to follow would be more one of due diligence, good management practices.

That's why I said a couple of times that we would have expected that Public Works and National Defence would have gotten together very early on in this process to try to identify what steps, procedures, roles, and responsibilities were required to bring this type of complex acquisition to its end.

The Chair: Thank you.

Sorry, Mr. Aspin, the time has expired. Indeed, the time for discussion on this chapter has expired.

Colleagues, we will now, as seamlessly as possible, transit from this issue to the next issue.

Mr. Ferguson, I know you need to have a bit of a change of staff. While you're doing that, I will entertain a point from Mr. Allen.

Mr. Malcolm Allen: Thank you, Mr. Chair.

Seeing that I have to leave, my colleague has come to replace me.

When I was questioning Mr. Ferguson in the first hour, he said I should ask others that question. So I would look to this committee to indeed allow that opportunity, of me and others, to ask those questions.

I would expect, in part of your planning phase, that indeed you will have additional witnesses. You have a list before you. As I understand from my colleagues, no motion will be put. I don't intend to do that and uphold, even though I wasn't part of it, that agreement. But I would wholly expect and anticipate that this committee will be scheduling additional time to talk to those witnesses.

Mr. Ferguson, under questioning, referred me back to Mr. Fonberg to ask that specific question. Clearly, he's not here. Obviously I need those individuals here to ask that question, as directed by the Auditor General.

I hope the committee will take that under advisement. I thank them for their indulgence, and I thank them for being with us today. It's always a pleasure to be with you, ladies and gentlemen.

Now I take my adieu. My colleague will return to fill in for me. Thank you, all.

The Chair: Very good. Thank you.

We are ready to move on now to the second hour, and that is of course to deal with the main estimates for 2012-13. Unless there are any interventions or concerns about procedure, we will continue in the same vein.

I'm still looking for the room to settle down a bit, as we make this transition.

Thank you for your cooperation. It's much appreciated.

With that, we will turn back to you, Mr. Ferguson, for your opening remarks on this matter, sir. You have the floor.

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

We are pleased to be here and would like to thank you for this opportunity to discuss our 2010-11 performance report and our 2012-13 report on plans and priorities.

With me today are Lyn Sachs, assistant auditor general of corporate services, and chief financial officer; and Andrew Lennox, assistant auditor general and a test audit product leader.

● (0950)

[Translation]

We are privileged to support Parliament's oversight of government spending and performance. We provide objective information, advice and assurance, from the financial audits, performance audits and special examinations of crown corporations that we conduct each year.

All of our audit work is conducted according to Canadian auditing standards and standards on quality control. We subject our system of quality control to internal practice reviews and to external reviews by peers to provide assurance that you can rely on the quality of our work.

[English]

During our 2010-11 fiscal year, the period covered by our most recent performance report, we used \$86.7 million of the \$88.3 million in parliamentary appropriations available to us. In light of the fiscal climate at the time we did not seek additional funding in the 2009-10 and 2010-11 fiscal years. Rather, we sought opportunities to reduce our expenses and redeploy auditors within the office. We employed the equivalent of 629 full-time employees during the 2010-11 fiscal year, a decrease of three from the year before.

With these resources, in 2010-11 we completed 148 financial and performance audits and special examinations of crown corporations, including work done by the Commissioner of the Environment and Sustainable Development. Parliamentary use of our work remained high. The office participated in 46 hearings and briefings. Parliamentary committees reviewed 62% of our performance audits.

[Translation]

Our 2010-11 Performance Report contains a number of indicators of the impact of our work and measures of our operational performance. Our targets and actual performance results are attached to this statement.

For the 2010-11 fiscal year, our performance report shows that almost all of our indicators of impact remained positive. Senior managers in the organizations we audited assessed the value of our work more highly than they had in the past three years.

Our measures of organizational performance also remained generally positive, though we were unable to sustain the significant gains we made in 2009-10, when we delivered more than 85% of our financial audits on-budget.

Our office also continued to be recognized as a workplace of choice, placing on the top employer lists for four major awards. While there were areas for improvement, overall, the office had successful years in 2009-10 and 2010-11 under the leadership of my predecessor, Sheila Fraser.

[English]

The Chair: Excuse me, Mr. Ferguson. My apologies for interrupting.

I want to bring something to the attention of colleagues at this very juncture in Mr. Ferguson's remarks.

Colleagues will recall that for some time now we've been trying to schedule the October 26, 2011 letter from the interim AG at that time, Mr. Wiersema, asking us to review the cuts the department had put forward. Mr. Ferguson is going to be commenting on those from paragraph 12 and on.

There may be an opportunity for us to do both at once. It's part of what Mr. Ferguson is presenting now. If colleagues can satisfy themselves that they have asked the questions they need to—I'm a little worried about our work plan and making sure we stay on top of things—we could effectively deal with estimates today, as well as the October letter.

I see Mr. Saxton saying no.

Would you rather have a separate hearing on the letter and the cuts?

● (0955)

Mr. Andrew Saxton: I think we're here today to deal with estimates. We discussed that at length last time.

The Chair: Okay, that's fine with me.

Mr. Andrew Saxton: Lets get through the estimates and see if we have time.

The Chair: Okay, that's fine with me. That's great. You might have wanted to think that through before you commented.

I apologize. I take it back. We will have a separate meeting on that letter.

Mr. Ferguson, continue.

Mr. Michael Ferguson: In planning for the 2012-13 fiscal year, our first priority is to continue to successfully deploy a renewal of audit methodology or RAM project. The adoption of international standards in 2010 and 2011 led to significant changes in accounting and auditing in Canada.

A RAM project was undertaken to respond to these changes as well as to respond to findings from our internal practice reviews, feedback from our auditors, and recommendations from the 2010 international peer review of our office.

The majority of the work on this project has been completed and has met its deadlines and financial budgets. This year we will focus on training, change management support, and monitoring the application of our new audit methodology.

The completion of this project at the end of 2012 will return approximately \$2.2 million to our audit operations, which we are including in our budget reduction proposal.

Our second strategic priority is to begin to implement our strategic and operating review or budget reduction proposal. In July 2011 we received a letter from the Minister of Finance encouraging us to adhere to the spirit and intent of this government initiative.

We undertook a thorough and comprehensive review of the office. We have analyzed all of our legislative audit practices with a view to concentrating our efforts where they will best serve Parliament and territorial legislatures.

While we believe that all of our work is valuable, some audits are less critical than others. We have used this review as an opportunity to assess how our resources are best deployed based on risk and value. We have also reviewed all of our internal processes and services to identify opportunities for operational efficiencies.

[Translation]

This proposal will result in a budget reduction of over \$6.5 million for the office and a staff reduction of approximately 10% by fiscal year 2014-15. It will not only generate cost savings, but also provide more consistency in our audit efforts across federal organizations. We are working with the government to ensure that the necessary legislative changes to our mandate are implemented.

The proposed reductions in our audit work predominantly affect our financial audit practice and will result in about 18 fewer financial audits. The legislative and other changes we proposed will focus our financial audits on the areas of greatest risk. We propose to continue our work as the financial auditor of the majority of crown corporations and of officers of Parliament, recognizing their unique responsibilities and accountability relationships

[English]

The one legislative change we propose outside of our financial audit practice would discontinue our assessments of the performance reports of Parks Canada, the Canadian Food Inspection Agency, and the Canada Revenue Agency.

We were required by legislation to do this work when these agencies were created. Legislation does not require us to do similar work on performance reports of any other government organization.

We believe Parliament requires high-quality performance information from all federal organizations. Therefore, we will continue to include performance reporting as a topic of consideration in our performance audit practice.

● (1000)

[Translation]

The majority of our interaction with Parliament is through our performance audit practice. We conduct audits that examine the efficiency, economy and environmental impact of all major federal government departments, agencies and other organizations. As a result of our strategic and operating review, we are proposing no reductions to our performance audit work in 2012-13.

In conclusion, Mr. Chair, my staff and I appreciate your ongoing interest in and support for our work. We look forward to continuing our work to assist you in holding the government to account for its management of public funds.

Mr. Chair, that concludes my opening statement. We would be pleased to answer your questions.

Thank you.

[English]

The Chair: Very good. Thank you, sir.

We will begin rotation in the usual fashion. First up is Mr. Hayes.

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

Welcome.

Mr. Ferguson, you're coming into a new role, succeeding an individual who was in your position for a long period of time. I imagine that given the increasing complexity of issues in government, as well as the greater focus being put on the role of auditing, you will probably want to redefine your own portfolio to a new era.

You've had a chance to work with staff now and get your feet wet. I'm curious as to what your vision is for the Office of the Auditor General.

Mr. Michael Ferguson: Thank you for that question.

Certainly I think the most important thing about the Office of the Auditor General is the institution of the office. It is critical that we provide information parliamentarians and this committee can rely on, and that they know we have done the work that needs to be done to make sure that when we bring something forward it is very much evidence-based.

In the office we have a very rigorous process that helps us identify which audits to do and ensures that we do them in a rigorous manner. So fundamentally for me the most important thing is to continue to do the things the office is known for: provide information to Parliament that Parliament can use to hold government accountable, and make sure that services are being well provided to the citizens. There's a whole mechanism and machinery in the office that is geared toward making sure that happens. Part of my role is to let that do its work and not get in its way.

Mr. Bryan Hayes: Over the course of the next year, the immediate term, even outside of the plans and priorities that have been identified, are there some changes that we can anticipate you sort of have your finger on, some things you've identified that need to change in the immediate future?

Mr. Michael Ferguson: Every year that you see the office evolve in direction or emphasis, that will be with my input, but it will not be at my specific direction. It will be based on taking the information, advice, and knowledge from all of the good people who work in the office, and very much relying on their expertise and knowledge to determine in which directions we should go.

So I think you will see some changes moving forward, but I believe they will be evolutionary rather than large changes at any point in time.

Mr. Bryan Hayes: Specific to 2010-11, targets were met on performance audits but they were not met for financial audits or special examinations. You mentioned earlier that the financial audits you're going to concentrate on this coming year are in areas of greatest risk. I think you said there would be no change in performance audits.

Can you discuss performance audits versus financial audits, and which ones are most important, if there is such a thing?

• (1005)

Mr. Michael Ferguson: Certainly I think the work the office does on financial statement audits is a piece of work we do that people are not necessarily as aware of. We do audits of around 150 financial statements. The one that gets the most visibility, of course, would be the audit of the financial statements of the Government of Canada, which are the Public Accounts of Canada.

A very large portion of the work we do in the office is auditing of financial statements, providing Parliament or boards of directors with the assurance that those financial statements were prepared in accordance with generally accepted accounting principles, and bringing to the attention of the organization any issues we feel need to be brought forward.

It's a very different focus from a performance audit. In a performance audit, what we do is set a specific objective to look at a certain question, really. We identify our own criteria around that, depending on what it is we are looking at, and then we present that.

We are anticipating that there will be no reduction in future years in terms of the number of performance audits we do. And it's the performance audits I think a committee like yours is most familiar with, because those are the things we come forward to discuss.

The Chair: Thanks very much. I appreciate that.

Madame Blanchette-Lamothe, you have the floor, ma'am.

[Translation]

Ms. Lysane Blanchette-Lamothe: Thank you.

Mr. Ferguson, you say you anticipate being able to do 30 performance audits of federal and territorial entities during the next fiscal year, while 26 audit reports were done during the previous fiscal year. Given the budget cuts, how do you think you will be able to meet the objective of 30 audits?

[English]

Mr. Michael Ferguson: Again, the practice in the office is divided into three main products: our performance audits, our financial statement audits, and our special exams.

With the budget reductions we have identified, we have identified that a significant amount will come from our financial audit practice, because we feel that some financial audits we are doing have not been adding as much value as other work we might do.

Also, we identified that there are some administrative changes we can make that will help provide some savings. And as I said in my opening remarks, the project we've been doing on our audit methodology will also provide us some savings that will contribute towards the overall budget reductions. So we don't believe that we are going to have to take any reductions in the area of the performance audit work we do, which is the area you're referring to.

[Translation]

Ms. Lysane Blanchette-Lamothe: Thank you.

With Bill C-38 and the budget that has been announced, cuts are going to affect your work. I would like you to tell me a little about that. Is this something you were expecting? Have you proposed the

agencies you were not required to audit? How does this work, in these circumstances?

[English]

Mr. Michael Ferguson: Certainly, as I said in the opening remarks, before I joined the office, the office received a letter from the Minister of Finance, indicating the government was going to go through a budget reduction. The office at the time decided it would go through everything it does in a complete manner to identify where there could be some reductions. Everything that was brought forward was something the office itself brought forward. We believe that because of that intense look at the work we do, the items we are proposing that we change or no longer do, it's the right thing to make these changes anyway, regardless of whether there was a budget reduction or not.

The changes are in a number of organizations we were doing financial audits in—for example, the Canadian Institutes of Health Research, and some were in the territories as well. There are a number, and I believe those have been tabled with the committee before. It's the same list that was presented to this committee back in October 2011, with one change: we will continue to audit the Canadian Nuclear Safety Commission, which was one we had proposed to stop.

• (1010)

[Translation]

Ms. Lysane Blanchette-Lamothe: Thank you.

When you talk about legislative amendments that you work with the government on, do they relate to that or to something else?

Mr. Michael Ferguson: Yes.

[English]

We are required by legislation to do most of those financial statement audits. To cease doing those audits, we have had to work with the government in terms of getting legislative changes, so we are no longer required to do them.

The Chair: Sorry, Madame, we're right on the line, so your time has expired. Merci.

Over to Mr. Dreeshen. You now have the floor, sir.

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

Welcome. I'm glad to see you back.

I want to go through three points. The first goes to the use of tax dollars. The second will be a comment on some of the savings you've indicated in your speech. The third is specific to your summary of indicators, tables. I will have a comment there. I'll try to get through those in the five minutes I have.

First, as we look at using tax dollars wisely—and of course it's important that we do that for us to be able to do our jobs—for that reason I think it's important that as we discuss the main estimates, you go through how you deal with an allocation of just over \$84 million for your office, and how it fits into your priorities for 2012-13.

I want to go on to the next. It ties in with the same type of thing. The government is very clear about its intentions to balance the budget, and in the process to reimagine how government operates to the benefit of taxpayers. All areas of government are engaged in this process.

The estimates prepared by your own office show some savings of approximately \$625,000. I wonder if you can explain what those savings represent, and how you are reassessing and realigning what's occurring in your office to ensure we have high-quality results for taxpayers.

Mr. Michael Ferguson: In terms of the allocation of our budget—and if required, we could probably provide some more details—in the \$84 million, fundamentally we have the administration of the office and then we have three product lines: our financial statement audit practice, our performance audit practice, and the special exams we do. Those are the three main pieces of work we produce. I don't have the exact allocation off the top of my head as to how much goes into each one.

The second part of your question, I'm sorry, you referred to \$625,000....

Mr. Earl Dreeshen: Yes, the savings you had last year. I believe that was.... I've got to dig through my own notes here.

Mr. Michael Ferguson: Certainly in the last year we did not have to spend all of the appropriation we had, and that was through a process of making sure we brought in our spending within budget. We were within a very small percentage of our total. That is normal for the office to land under budget.

• (1015)

Mr. Earl Dreeshen: When I read through your notes that you had today, you talked about the renewal of audit methodology. There's also the savings that are going to come because you have completed that project. When a person looks at the overall budgets for the future, you've taken—what is it—\$2.2 million that's budgeted right now that's not going to be required later. I think that is one of the things people should be aware of. This allows you to kind of work into the dollar figures that you have.

Just in case I run out of time, the last question—and I always mention this point—is on the summary of indicators table. Footnote 3 speaks of “on budget”. It says:

“On budget” means the actual hours to complete an audit did not exceed the budgeted hours by more than 15 per cent.

Again, when we take a look at that, an auditor is saying, “Well, as long as you're not 15% over what you said you were going to do in an area that should be fine”. I don't think that's how it is when you take a look at other people's books, so could you comment on that as well?

Mr. Michael Ferguson: What we do when we are budgeting for an audit is we essentially budget for the audit to unroll without there being any issues. For example, we say this is the number of hours we expect we should be able to complete this audit in if we don't identify there being any issues within that audit. The 15% is giving us a 15% cushion across our whole portfolio of audits, in that we recognize there are going to be instances when there are issues in an audit that need to be worked through.

We don't go in assuming that every audit is going to have those types of issues and therefore provide a higher budget to deal with it. We go in assuming there are no issues—the lower amount of budget—but then we give ourselves some room to say we've still got a 15% cushion to deal with any issues that might arise.

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

Moving over to Monsieur Ravignat, you have the floor now, sir.

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

I share the concern of my colleague Mr. Dreeshen with regard to respecting taxpayers. That's why I'm quite worried about your diminished role due to these cuts as we go forward.

With regard to your budget-cutting efforts, you suggest that cutting your office administrative services by significantly reducing or eliminating positions will lower service levels. So lowering your service levels will simply lower the level of oversight of federal departments and agencies, when your goal is transparency and good management.

Are you not afraid that under a Conservative government that is clearly lacking in transparency on a number of issues, there may be some inherent danger in proposing this?

Mr. Michael Ferguson: The service level reductions we are referring to in the budget proposal are internal service levels. In fact our renewal of audit methodology project has been geared to making sure we continue to produce quality audits—audits this committee can depend on. Our intention is to continue to do the same number of performance audits as we've been doing for the last couple of years.

There will be some instances within our own delivery of services to staff when perhaps some things will take a little longer than they had before or that type of thing. The reduction in service we are referring to is service to our own staff.

Mr. Mathieu Ravignat: You'd think that writ large in the complete public service there may be more significant areas and areas of greater priority than cutting the Office of the Auditor General, with the important function that you play for Canadians.

I'd like to talk to you about some of the cuts to the positions going forward.

• (1020)

[Translation]

You talk about spending that will be used to reassign and train the employees affected. We are talking about a loss of approximately 60 jobs. What positions are you planning to eliminate? Will those people be reassigned? Will they receive severance pay? What kind of training are you referring to?

[English]

Mr. Michael Ferguson: We have identified that the reduction could affect up to 60 positions. Our plan is to deal with as many of those as possible through attrition. I believe probably about half of those are administrative positions and half of them are audit positions. The audit positions would be a direct result of us saying there are 18 financial audits that we feel we no longer have to do.

There may be a few people impacted, and we will deal with those through the normal mechanisms. Certainly our intention is to deal with those staffing issues through normal attrition and staff turnover.

[Translation]

Mr. Mathieu Ravignat: In 2011-2012, 178 of the OAG's 629 employees were executives. That is a relatively high percentage. The proportion we are talking about here is 29%, while 257 employees, or 41%, were auditors.

Do you believe you have the right mix of executives, auditors and support services? Are you going to keep the same balance, notwithstanding the elimination of those 60 jobs?

Ms. Lyn Sachs (Assistant Auditor General, Office of the Auditor General of Canada): Mr. Chair, I would like to thank the member for his question.

There are 178 executive-level positions at present. Given the reductions, we are going to eliminate about 60 positions, as we explained earlier, and I imagine that will mean about 10 or 15 executive-level positions.

In addition, our effectiveness plans provide for a reorganization that involves reducing the number of managers and adding about 10 or 15 auditors. We have reviewed all of the responsibilities and levels to make sure the appropriate levels are impacted and to be sure of the proportions and needs associated with our audits, which call for a fairly significant effort in relation to what we produce.

[English]

The Chair: Thank you very much. Time has expired, sir.

We are moving over now to Vice-Chair Kramp.

Mr. Daryl Kramp: Thank you, Chair.

I have a few questions, and I would like some clarification.

Let me just comment, first of all, and thank you certainly on behalf of the Government of Canada and all the taxpayers of Canada for showing the financial stability and of course the probity in moving forward and in coming up with some reductions in your own office expenses and your own operating expenses while still maintaining the effectiveness of your work. Thank you very much for doing that work.

A couple of things sort of stood out, and I'm just asking for some clarification. You said in 2010-11 that 99% of all the eligible managers received performance pay bonuses, and that over \$2.25 million was paid out for these. Certainly we have no problem with performance pay going out when it is earned, but is that 99% standard? Has that been consistent all the way through? Is this what we should expect? If that is the case, why wouldn't it just be considered part of the actual regular salary, rather than a bonus?

Ms. Lyn Sachs: Thank you for the question. This is a question we know of and are fully aware of.

In the breakdown of our performance pay, we follow very much what the public service has done in the way of pay at risk. So if you perform as expected, you will get performance pay, which is why you end up with 99% getting it. The levels are set pretty much as part of a compensation package when you are hired so that if you meet your objectives you will be eligible for about 5% to 7% in

performance pay. You can call it "pay at risk". It's part of your compensation.

The additional amount, up to 5% in some cases, applies only if you have met an exceptional level. Those additional amounts are challenged across the executive, and there is a much more limited number of those who will receive that exceptional performance.

Yes, we're fully aware it is 99%, and perhaps the misnomer is in the term. It is expected performance pay, and it's all part of the compensation package. It's a competitive salary base, which we ensure our directors or management are paid according to the market and according to the public service, so we are quite comfortable with that amount.

• (1025)

Mr. Daryl Kramp: Thank you.

I think it's important for the general public, as well, to understand the explanation you have given right now. There's the perception out there that you are just fat cats drawing an extra salary on top, per se.

Could you give us a ballpark range? You said 5% to 7%. How much money are we talking about per year? As an example, some of the general public might say that someone is going to get a \$100,000 or \$200,000 bonus on top of this. Obviously that is not the case. Could you give us a range you've found to be serviceable?

Ms. Lyn Sachs: I'll try to be general.

We have three management levels. DX levels earn about \$120K. I'm rounding; it's probably more like \$118K. A DX earning \$100K would get about 5% of that, which is about \$6,000, divided by two measures, one for people and one for product. We focus on people management as well as product.

Your PX, or what we call principals, earn, I believe, about \$150,000 and the same 5% to 7%. And your system auditors general are closer to \$190,000, and they would get something a little higher on the range, about 7%, as a base.

Mr. Daryl Kramp: Thank you.

What we have seen is a pretty rapid rate in financial costs for the Office of the Auditor General, overall, over the years. I take a look at the chart of financial costs, and I see that back in 2006-07 the net cost of the program was \$88.1 million. Now we are talking about \$102 million. For performance audits, you're down just slightly. Financial audits went from \$31.3 million up to \$45.4 million. Special examinations went from \$4.3 million to \$4.5 million. Professional practices went from \$7.5 million up to \$11.1 million.

Over this three- to four- to five-year cycle, there have been some pretty substantial increases in the actual budgetary capacity of the Auditor General. We have no difficulty with that, quite frankly. The work you have produced and the results I think have demonstrated good value for money.

Quite frankly, in the years I've sat on this committee, with a number of other members, we've appreciated the work and we've considered them dollars well spent. But there is still no such thing as an endless move forward. That's why we do appreciate the move you have taken, particularly during this downturn in the economy, to be a bit more conveniently respectful of the taxpayers' dollars for this next term.

What do you see over the next three to four to five years? Are you comfortable with what you're at right now, with maybe a normal inflationary situation, or do you have any ambitious plans to take on a series of other projects that would take on some serious additional cost for the government? Or do you see yourself in a holding pattern?

Mr. Michael Ferguson: At this point, we've looked out over the next three years. The budget reduction proposal we brought forward deals with the three years. Actually, as I understand it, the reduction is all really in that third year, so we have some time to deal with the impact of it.

We haven't gone beyond that point in time. So really, right now, I couldn't say whether there would be anything else we would be proposing to come back with in terms of any expansion of our mandate. We've looked out over this three-year time period, and we're comfortable that we can continue to deliver on the important audits we do in that timeframe.

The Chair: Thank you.

Time has expired, Mr. Kramp.

We'll go over now to Vice-Chair Byrne. You have the floor, sir.

Hon. Gerry Byrne: Thank you, Mr. Chair, and thank you to our witnesses.

I want to explore a little bit the relationship between the Office of the Auditor General and its work on legislative auditing—not only financial but performance auditing, or value-for-money auditing—and the internal audit function within the Government of Canada.

It is important for us all, as parliamentarians, to recognize that changes are occurring not only within the Office of the Auditor General, but there are also very significant changes occurring in the internal audit function across government.

The Comptroller General of Canada was before our committee, and I asked him whether he could outline for the committee exactly what cuts were about to occur or were occurring within the internal audit function. He explained to me that he could not tell us until after the budget. We haven't recalled him, but we would still like to get those numbers.

How would you describe the relationship between the Office of the Auditor General and the internal auditors within the various government departments? Do you piggyback on the work they do? What will be the consequence of cuts, not only to your own shop but to the internal audit function as well?

I'll frame it this way. The regional economic development agencies, such as Western Economic Diversification, CEDQ—for economic development in Quebec—FedNor, and others have completely eliminated the internal audit function. They are asking

the Office of the Auditor General to pick up the slack. How do you do both? How do you cut your own office while taking up the slack from cuts to the internal audit function?

• (1030)

Mr. Michael Ferguson: Certainly we work closely with internal audit shops in government departments and agencies. We will often share plans with them to try to make sure we aren't both auditing the same thing at the same time. So we do work closely with them. We also appear before departmental audit committees, so we do have a relationship with the departments at their internal audit level. That's as it should be, and we rely on the work of internal auditors.

Certainly I don't know anything about whether any departments are planning to reduce the level of their internal audit functions, but if that were something departments were proposing to do, I think they should be able to explain how they would be able to mitigate any reduction in internal audit.

So there's always a concern with budget reductions that the departments make sure they are thinking those types of reductions out clearly. We certainly believe internal audit is a very important function of the department to make sure that they do what they do well.

Hon. Gerry Byrne: I'm reading that your office has not been consulted by the Comptroller General's office as to their planned reductions in the internal audit function. You have not been asked for your advice as to whether or not internal audit functions within various government departments or agencies or crown corporations can be either eliminated or reduced. That has been left totally separate from your purview.

Mr. Michael Ferguson: To the best of my knowledge—and I think I can speak personally and for the folks here with me—we have not had any discussions with any department about potential reductions to internal audit they might be proposing.

Hon. Gerry Byrne: Would you be concerned if crown agencies or departments had made that decision to cut the internal audit function or to reduce it substantially, with the expectation that it would be your office that would fill up the slack, so to speak, when you hadn't been consulted?

Mr. Michael Ferguson: When we look at a department and at what we're going to audit in a department, one of the things we assess when we're looking at risks is the strength of their internal audit shop. So if we found that a department was going to reduce internal audit—and again it's not something I have any knowledge of—we would be concerned about the possible increased risk to the delivery of programs in that particular department.

Hon. Gerry Byrne: Would it also create a substantial burden on your office if the Atlantic Canada Opportunities Agency, for example, dismissed nine internal auditors and dismantled the entire internal audit shop, the wing, with the expectation that its efforts and its activity would actually be taken up by the Office of the Auditor General, when you had not made plans for that and were in fact cutting your own resources and streamlining and focusing your own efforts?

Mr. Michael Ferguson: Again, we haven't been consulted on any reductions in individual departments or agencies or what the impacts might be for us.

If an organization were significantly reducing its internal audit shop, that would increase the risk factors in that organization. We would want to make sure that there were some mitigating factors. When we look at a department and assess whether there are risks, an internal audit shop is a component of internal controls we would rely on. If it weren't there, that would change how we assess our look at that department and what work we might need to do.

• (1035)

The Chair: Thank you. I'm sorry, but your time has expired.

Mr. Saxton, you have the floor, sir.

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

I have just seen the clock, and we're almost out of time. I think it's important that we have an agenda going forward for the committee.

I would like to move that on Thursday the committee do one hour of report writing and then one hour of planning—because obviously we have to plan going forward beyond that point as well—and that the entire meeting be in camera.

Mr. Mathieu Ravignat: Mr. Chair, there was planned business on our agenda. He's skipping the planned business on the agenda. I would ask that we respect the agenda as it is.

There was a motion from the NDP that was scheduled. We should have a little bit of respect for due process.

The Chair: Which motion are you referring to?

Mr. Mathieu Ravignat: The one that has been noticed on the agenda, if that's correct.

The Chair: Yes, okay.

Mr. Mathieu Ravignat: That was the first item on our business work.

I propose that Madame Blanchette-Lamothe go ahead with her motion, and then we could discuss Mr. Saxton's motion. I think that would be fair.

The Chair: I hear your point, but I have to give some weight to the fact that if we don't pass a motion.... Again I want to emphasize that without a well-functioning steering committee, we continue to lurch in terms of our work plan and we're not nearly as efficient as we should and could be.

Having said that, if I don't entertain a motion that deals with business, that means there is no meeting on Thursday.

Mr. Mathieu Ravignat: I'm not—

The Chair: Let me finish.

I have to deem the overall business of the committee to be the priority. So I'm ready to entertain the motion with that in mind, given that bells are going to ring very shortly and the meeting is about to expire. I, as the chair, desperately need some order to bring us back for Thursday, or we lose the whole day.

I'm listening to you. Go ahead.

Mr. Mathieu Ravignat: Could I at least suggest that his motion, which includes both a motion for business and a motion to move in camera, be separated? If Mr. Saxton wants to proceed in a secretive way with regard to the future work of this committee, let him propose a motion right now to go in camera, before we discuss his motion for business.

The Chair: I'm being fairly loose with the rules in an attempt to be fair. So I will ask Mr. Saxton if he would like to acquiesce to your request and split them, but he does not have to.

Mr. Saxton.

Mr. Andrew Saxton: Mr. Chair, I think my original motion before the committee is fairly straightforward. I'd like to put that motion to the committee; that is, that report writing be for Thursday's first hour and planning for Thursday's second hour and that Thursday will be entirely in camera.

The Chair: When you say planning, I assume you mean committee business.

Mr. Andrew Saxton: Yes, I mean committee business.

The Chair: You mean committee business. I want to make sure that the change of terminology—

Mr. Andrew Saxton: Sorry, I mean committee business.

The Chair: —reflects everybody's intent.

I will deem that motion to be in order. Mr. Saxton does have the floor. I deem this to relate very germanely to what we're doing, given the fact that we can't meet on Thursday. I will deem that motion to be acceptable. If we start getting into a lot of debate, we're going to get into some time problems here, folks. I ask you to think about that.

Mr. Ferguson, I apologize for a moment as we step aside to deal with this.

The motion is on the floor. Is there any discussion, bearing in mind my cautionary note?

Madame.

[Translation]

Ms. Lysane Blanchette-Lamothe: What report would the writing be for? Is specifying what report we will be working on part of the motion?

[English]

The Chair: Merci. That's a good point.

The black-line copy on.... Alex, help me with the name of that report.

Mr. Alex Smith (Committee Researcher): We were considering Canada's economic action plan. We haven't got to the black-line copy yet.

• (1040)

The Chair: We were still going through the first—

Mr. Alex Smith: We're still going through the—

The Chair: Okay. And one other report is ready for us to begin, right?

Mr. Alex Smith: Yes, the audit on regulating pharmaceutical drugs.

The Chair: So we have lots of work. So we would be picking up on the report that we were doing last week.

Mr. Alex Smith: That's correct.

The Chair: We'll pick up on that. And then the second report, just to be accurate, if we get to it, will be which? Which report is that?

Mr. Alex Smith: Regulating pharmaceutical drugs.

The Chair: Right, regulating pharmaceuticals.

Does that clarify, Madame?

[Translation]

Ms. Lysane Blanchette-Lamothé: Thank you.

[English]

The Chair: Further on the motion?

(Motion agreed to)

The Chair: You still have the floor, Mr. Saxton, but not much.

Mr. Andrew Saxton: Mr. Chair, at this time, since we're almost there, I move to adjourn.

The Chair: Okay, it's certainly in order.

Mr. Mathieu Ravignat: How is that in order when I just made the comment that following Mr. Saxton's motion we could at least hear Madame Blanchette's motion, which is already on the agenda?

The Chair: I know. I hear you. That comes under committee business, which we're not really into. I took that one motion, and the motion to adjourn is in order. It's not debatable. I'm not sure that it's particularly helpful at this time, but it's not debatable.

Mr. Mathieu Ravignat: We just discussed committee business. How is it that we didn't move committee business? We followed all the proper procedures. We had a notice of motion placed 48 hours in advance, and now we're allowing the colleague to usurp that process by discussing business when we're not really discussing business.

The Chair: Well, hang on. You need to know that there is another notice of motion in process right now. In fact, I've talked to the clerk about how we present it on the agenda, because I don't think it accurately reflects where we are.

There is another notice of motion that could take precedence, depending on how it's moved. We've already started to deal with it, but it was pre-empted by a motion to adjourn similar to this. So it's outstanding too.

I hear your point. This is not neat and clean, but I do think it has been fair so far, and the motion is in order. We are three or four minutes away from our normal adjournment, so I have to deem that I don't see anything extraordinarily out of order enough that I would rule the motion out of order. Therefore, the motion is indeed in order, unless there's a point of order, and it had better be a real one.

I'm not seeing a point of order. Therefore I am obliged to put the motion to adjourn, without debate, which I will now do.

Hon. Gerry Byrne: I'd like a recorded vote, Mr. Chair.

The Chair: Thank you very much. We will do a recorded vote. Every member has the right to call for a recorded vote.

Madam Bateman has a point of order.

Ms. Joyce Bateman: Is it not appropriate, once you've called the question, that our colleague was too late with that? I just want to know.

The Chair: It's not hard and fast; it's common sense. We hadn't started voting. We were just about to. That's pretty much how we do it.

You have the same right at any time, as long as we're not in the middle of the vote. But if it's clear that you were waiting until it got started and then got my attention.... I think it's okay.

Are you okay with that ruling?

Ms. Joyce Bateman: Yes. I'm here to learn.

The Chair: I know. You're the best civics lesson we have. Believe me, a lot of people learn every time you ask a question.

(Motion agreed to: yeas 7; nays 4)

The Chair: Thanks to Mr. Ferguson and his staff.

The meeting now stands adjourned.

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