# FOR THE WANT OF A NAIL: THE ROLE OF INTERNAL AUDIT IN THE SPONSORSHIP SCANDAL

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## Preface

This study of the internal audit processes in the Government of Canada was performed by Liane Benoit under the direction of C.E.S. Franks. The study proved difficult to conduct for three reasons. First, so little has been published about the internal audit function in the Government of Canada that there were no academic foundations on which to build. The study had to be done from scratch in a field of special importance because the Gomery Inquiry, and the inquiry of the Public Accounts Committee that had preceded it, had shown that deficiencies in the internal audit had contributed to the continuation and aggravation of problems in the Sponsorship Program.

Second, while the study was being conducted, Treasury Board introduced a set of reforms to the Government's internal audit procedures that will substantially change the way the Government conducts its internal audit.[1] These proposals had to be taken into account in the study.

Third, the first report of the Gomery Commission, which was released while the study was underway, examines the failures of the internal audit to detect and correct the problems in the Sponsorship Program.[2] Nevertheless, the failures in internal audit are so important that we have included a section on that topic in this paper.

The authors are grateful for the assistance of many individuals and organizations in the research. The paper presents the views of the authors, views which are not necessarily those of the persons and groups who helped in the research. The virtues of the study belong to those individuals and organizations; the faults belong to the authors.

The subject of internal audit is far more important than its neglect by students of public administration suggests. We hope and trust that this study will lead to further discussion and analysis, as well as a better understanding of the internal audit function in Canadian government.

## 1 Internal Audit as Protagonist

### 1.1 Introduction

> For want of a nail the shoe was lost. For want of a shoe the horse was lost. For want of a horse the rider was lost. For want of a rider the battle was lost. For the want of a battle, the kingdom was lost. All for the want of care, of a horseshoe nail.

This traditional children's nursery rhyme, a proverb about the larger consequences of seemingly minor actions, might well offer pundits and scholars the most concise analysis of the role played by internal audit

in the complex series of events that ultimately led to what is now known as the "sponsorship scandal." There is evidence to suggest that the inability of the internal auditors at Public Works and Government Services Canada (PWGSC) to adequately detect, analyze and/or articulate to senior managers the true nature and seriousness of the irregularities that were occurring within the Sponsorship Program in the mid- to late-1990s played a critical, if not pivotal, role in the ensuing chronology of cascading political events. It was the Auditor General herself who suggested such a thesis when she concluded in her 2003 investigation into three Groupaction sponsorship contracts that, "[t]hese violations were neither detected, prevented, nor reported for over four years because of the almost total collapse of oversight mechanisms and essential controls."[3]

Could internal audit be the unlikely protagonist in this scenario? Through a thorough examination of events, this study will attempt to illustrate how the auditors at PWGSC failed in their duty to inform senior management of the seriousness of the deficiencies, thus depriving management of the opportunity to stop the dominoes from falling. This study will also show how, in a sense, the auditors became almost complicit in perpetuating the wrongdoing by obfuscating the true nature and extent of the irregularities, providing to management assurances that could not be adequately supported by the scope of the audits undertaken, and refusing to report in clear and uncompromising language the serious and potentially fraudulent nature of the matters that were occurring beneath their collective investigative noses.

While many of these failures of internal audit might be explained by questionable levels of competence or judgment on the part of PWGSC auditors, it is equally apparent that the blame for this breakdown in oversight cannot to be laid solely and completely at the auditors' door. Why the system failed to adequately address and thereby pre-empt the mismanagement of advertising contracts that was first detected as far back as 1994 might be as much attributable to the political (both big

and small "p") context in which these investigations and decisions were being taken as it is to any negligence on the part of those responsible for such assessments. Shedding light on the audit environment in which these affairs were undertaken requires two things: first, an examination of the culture of the bureaucratic environment in which internal audits operate, including the many structural and institutional conundrums that exist to frustrate the auditors' ability to provide reliable assessments; and second, an examination of the idiosyncratic circumstances and political context in which these specific events were incubated.

A review of the academic literature with regard to internal audit is singularly unhelpful in this analysis, in that few scholars of political science or public administration appear to have considered this subject in any great depth. While professional institutes such as the Institute of Internal Auditors publish many learned papers on the various mechanics and methodologies of the process, the only assessment of the role of internal auditor as political protagonist is to be found in David Good's book, *The Politics of Public Management: The Human Resources Development Canada (HRDC) Audit of Grants and Contributions*. The author was serving as an Assistant Deputy Minister at HRDC at the time when the release of a report by that Department's internal audit group resulted in what was quickly characterized in the media as "a billion dollar boondoggle." In his inside account of the scandal, he offers a candid review of the role played by an internal audit in that affair. His reflections provide some interesting comparative insights into the failings and foibles that have plagued, and continue to frustrate, the workings of this oversight function, and into the institutional, cultural and systemic factors at play that conspire to influence the perceptions and actions of those involved.

These and other issues will require exploration if we are to arrive at any reasonable assessment of how the "shoe" was lost at PWGSC and, more important, how the Government can ensure that such an episode is not repeated.

## 1.2
## Early Warnings

Had internal audit heeded the recommendation of one of its own in 1995, the high profile corruption and flagrant mismanagement that surrounds the Sponsorship Program might never have occurred. In that year, the Assistant Director of the PWGSC Audit Branch, Ms. Julia Ginley, was asked to undertake a "consulting assignment"[4] at the bequest of the then Assistant Deputy Minister (ADM), Mr. Bill Neville, to assist in the development of an appropriate management control framework for a newly created sector, the Advertising and Public Opinion Research Sector (APORS). Mr. Norman Steinberg, the Director of the Audit and Review Branch[5] of PWGSC, in his testimony before the Sponsorship Inquiry, explained the genesis of this assignment:

> [T]he Assistant Deputy Minister at the time, Mr. Neville, who was in the process of putting together this organization, came to us…and asked us "If I put this sort of management control framework in place would it be robust, would it be rigorous?"…What we were telling him is—first of all, we wanted to find out from him what kind of environment he was establishing the program, what were the risks that this program would be faced with. On the basis of that we could give him some reasonable advice in terms of what would be the appropriate management control framework and where its deficiencies would lie.[6]

There was good reason why the ADM responsible for this newly constituted sector might have wished to ensure a robust financial control framework to guide its management. Until its creation that year, the administration of advertising contracts within PWGSC had been divided between two separate groups. The first, the Advertising Management Group (AMG) under the direction of Mr. Charles (Chuck) Guité, was responsible for selecting advertising firms and monitoring

the quality and effectiveness of government advertising. The second was a separate procurement team headed by Mr. Allan Cutler and housed within the mainstream procurement division of PWGSC, called the Public Relations and Print Contract Services Sector (PRPCSS). Mr. Cutler's group was responsible for negotiating the contracts, including terms and prices, with the agencies chosen by the first group, AMG. The two groups operated independently from separate offices at different locations and, according to testimony from Mr. Cutler, had very little contact.

This division of responsibilities between the two groups served as one of the institutional "checks and balances" in awarding government advertising contracts, making it difficult for one side to deviate from the rules without the other side being alerted to the irregularity. According to Mr. Cutler, until the mid 1990s, despite this institutional tension, the two groups had never experienced any friction. By 1994, however, that changed. As Mr. Cutler explained before the Public Accounts Committee:

> Sometime around 1990, Mr. Guité became head of the advertising management group (AMG). In 1994, Mr. Guité began interfering in the contracting process by authorizing agencies to carry out work without a pre-existing contract. This led to a meeting on November 17, 1994, between Mr. Guité and the advertising contracting group—my group—at PWGSC, including me.... At this meeting, Mr. Guité told us that the normal rules and regulations should not apply to advertising. He said he would talk to the Minister to have them changed.
>
> A week later, I was informed that I and two other employees who worked for me would move to Mr. Guité's section and report to him directly. At this point in time, Mr. Guité's responsibilities were expanded to include not only the selection of advertising agencies,

> but also the negotiation and awarding of contracts to selected agencies. At this time, he also became responsible for procurement of public opinion research services. As part of this change, I was physically relocated to Mr. Guité's group, which operated from an office that was completely separate from other PWGSC offices.[7]

The amalgamation of these two groups into APORS under the direction of Mr. Guité in effect removed the institutional check that had previously existed in the advertising contract process, and it was the development of a new management control framework for that sector that led the ADM, Mr. Neville, to seek the advice and assistance of the Audit and Review Branch.

The study that was conducted in response to this request involved a series of interviews with members of the new advertising unit, APORS, as well as with their "clients" in other government departments. During one such interview, Ms. Ginley, the PWGSC auditor in charge of this assignment, was told that the client Department's own advertising people felt they were being shut out of the contracting process managed by APORS and, as a result, were now being forced to pay advertising rates negotiated exclusively by PWGSC that were as much as a third higher than current market rates. Ms. Ginley wrote to Mr. Guité to advise him of the client's concerns. She testified at the Sponsorship Inquiry that she had assumed that, once informed of the problem, Mr. Guité would remedy the matter in the next round of contract negotiations.

Ms. Ginley's approach in advising Mr. Guité directly of the problem identified by her research was consistent with federal auditing department practice whereby line managers are informed and given full opportunity to respond to and rectify any deficiencies that might be uncovered by the auditors in the course of their work. In most cases, the redress for administrative irregularities takes the form of an action plan detailing the steps management intends to take to remedy the

situation. The action plan, along with the auditor's report, is then submitted for review and approval to the Audit and Review Committee, an internal oversight body normally chaired by the Deputy Minister and made up of three or more senior managers, usually at the ADM level. In this case, however, the fact that the complaint had arisen in the context of consulting work rather than through an audit process meant that no formal response was required of Mr. Guité.

Other financial and management risk factors associated with APORS came to light during Ms. Ginley's research. In her interview with Mr. Guité, she noted his statement that he met once a week with the Minister's Chief of Staff, a relationship that she recognized as highly unusual for a public servant of his status and classification. Mr. Guité admitted that political sensitivities associated with the job were "heavy but sporadic,"[8] and she noted that he had a paper shredder beside his desk. Her observations on the idiosyncratic nature of the unit were further corroborated by her interview with Mr. Cutler. Her notes from that meeting foreshadowed the evolution of future events when she wrote, "political sensitivities = allegations of bid rigging, or complaints to minister. Answer is to follow the rules religiously."[9]

The complaint of the client Department, coupled with the evidence of the unusual political relationships associated with APORS activities, led Ms. Ginley to conclude that the advertising unit represented a significant level of risk to the Department. In her final report to the ADM, Mr. Neville, she included a strong recommendation that once the APORS management control framework was put in place, a compliance audit of APORS contracting practices should be undertaken.

Ms. Ginley's work represented the first opportunity afforded the Audit and Review Branch to investigate and potentially expose the early irregularities occurring within Mr. Guité's domain. So why was the recommendation for a compliance audit not followed? According to the

testimony of Mr. Steinberg, the head of the Audit and Review Branch, the recommendation was put forward by Ms. Ginley in February 1995. The next opportunity for APORS to be considered for the Department's annual roster of audits was six months later, in the fall of that year, when the audit schedule for the 1995-1996 fiscal year was determined. Mr. Steinberg indicated that about 30 audits are routinely conducted at PWGSC every year out of a list of 160 different audit elements.[10] Who to audit was decided according to the Department's risk assessment analysis—in other words, its evaluation of which activities within the Department might pose the greatest risk of impropriety or non-compliance with Treasury Board policies, departmental regulations or the *Financial Administration Act* in any given year. Mr. Steinberg's testimony was silent as to why Ms. Ginley's recommendation for a compliance audit was not pursued:

> Julia would have participated [in the selection process] as one of our business managers in providing input in terms of which of the audit elements she had knowledge of and responsibility for. She would recommend it to be included in the Audit Plan and through the process of iteration, the ultimate plan gets decided. So Julia would have had an opportunity to make a recommendation that this audit should go forward.[11]

APORS was again among those sectors considered in the Department's deliberations for audits to be conducted in the 1996-1997 fiscal year. Mr. Steinberg testified at the Sponsorship Inquiry that on that occasion APORS was included on the preliminary list, but it failed to make the final roster:

> Indeed, when we were in our 1996-97 mode, this APORS audit was listed as a potential audit to be done, but it was, in terms of the prioritization of audits that we were doing, it fell below the line of our available resources to do.[12]

By 1996, life in Mr. Guité's sector had become increasingly difficult for the procurement specialist, Mr. Cutler. Mr. Cutler was, by his own admission, "an extremely professional buyer" who had been "trained well by a number of highly qualified individuals over the years." He had become increasingly concerned with APORS contracting practices since he and his then superior, Mr. Pierre Tremblay (a different Pierre Tremblay than the Honourable Alfonso Gagliano's Executive Assistant), had first confronted Mr. Guité over irregularities at the meeting in 1994, and what he had witnessed since his move from the PWGSC procurement mainstream into the APORS unit had not lessened any of his professional discomfort. According to his testimony before the Public Accounts Committee:

> Contracts were regularly backdated; commissions were paid for services apparently not performed; there appeared to be improper advance payments; in circumstances where ministerial, Treasury Board or legal authorization were required, they were not sought; contracts were issued without prior financial authorization.[13]

Mr. Cutler again confronted Mr. Guité over these contracting irregularities in February 1995. He testified that Mr. Guité became quite upset and gave him the strong impression that his job was in jeopardy.[14] Shortly after, Mr. Guité informed Mr. Cutler that in future he would be reporting to Mr. Mario Parent. The implications of this move were not lost on the career public servant. Not only was it, professionally speaking, a loss of face to no longer be reporting directly to the head of the sector, but the insult was exacerbated by the fact that his new "boss" held a position in the civil service hierarchy that was a level below Mr. Cutler's. In imposing this new reporting line, Mr. Guité had offered Mr. Cutler a choice—report to Mr. Parent or be placed on the priority list, a move that in the environment of severe cutbacks and downsizing of the mid-1990s meant he would be out of a job within six months. Shaken by the potential implications to his career and aware of the need to protect himself in case of future retaliation, Mr. Cutler began to keep

copies of documents and a log recording details of any contracts he was asked to process that he considered questionable or improper.[15] A little over a year later, in April 1996, he refused instructions from Mr. Parent to sign an approval authority on a contract that Mr. Cutler determined to be irregular. Mr. Parent warned him that he would have to "suffer the consequences"[16] and "pay a price"[17] for that refusal.

It was at this point that Mr. Cutler approached his union, the Professional Institute of the Public Service (PIPS), and advised it of the contracting irregularities he was observing, and the history of the intimidation and threats against him by his superiors. In response, PIPS sent a letter on May 13, 1996, to the Assistant Deputy Minister for Government Operations Services Branch, Mr. Jim Stobbe, who in turn requested that Mr. Cutler bring his documented evidence to the Audit and Review Branch of PWGSC so that it could evaluate the legitimacy of his complaints.

Two weeks later, the Audit and Review Branch met with Mr. Cutler to review the allegations and the evidence he had amassed over the previous 14 months. In a report dated June 7, 1996, the auditors confirmed that Mr. Cutler's allegations about contracting irregularities at APORS were founded.[18] After a second interview with Mr. Cutler on June 10, 1996, the Audit and Review Branch informed the ADM that there was sufficient evidence to warrant further investigation. Notes taken during that period at a meeting between Mr. Stobbe and members of the Audit and Review Branch indicate that the ADM was not in favour of an audit. However, in reviewing the findings of preliminary investigations, the Director, Mr. Steinberg, felt that a further investigation of APORS contracting practices was warranted.

Curiously, it was on June 11, 1996, one day after Mr. Cutler met with members of the Audit and Review Branch for a second time and passed on to them further documentation, that he was invited into Mr. Guité's office and told that his position had been declared surplus. While

Mr. Guité claimed his decision had nothing to do with Mr. Cutler's disclosures, there can be little doubt that this was the compelling factor in that decision. In fact, this move likely satisfied two objectives for Mr. Guité. It initiated a process that would rid his unit of the dreaded "snitch" in advance of an anticipated expansion of Mr. Guité's duties and authority within the Sponsorship Program, and it sent a warning to all other members of APORS about what might happen should they also be inclined to question his authority. Interestingly, no one in senior management, all of whom were aware of what was happening to Mr. Cutler, came to his defence in light of these developments. No one intervened to protect his career or to sanction Mr. Guité for his obvious ruthlessness in the matter. On the contrary, Mr. Guité's star continued to rise unimpeded, as if proof of the old Ottawa saying that, in government, "heads roll uphill."

## 1.3
## The Ernst & Young Audit

Much might be made of the fact that the internal audit of APORS that was instigated by Mr. Cutler's disclosures in 1996 was conducted by an outside firm. While contracting out may at first glance suggest a level of independence and objectivity in the performance of audits that could not be said of an "in-house" job, such was not the reality. Testimony given both by members of the Audit and Review Branch and by representatives of Ernst & Young, the company retained to conduct the audit, confirmed that the external auditors were performing their duties as an extension of the Department and were still very much under the supervision and control of the PWGSC Audit and Review Branch.[19] As Mr. Steinberg stated in testimony before the Commission, "we would project manage an outsourced audit in the very same way that we would project manage an in-house audit."[20]

It was likewise clear from Mr. Steinberg's testimony that the Audit and Review Branch had complete discretion in determining the terms of reference and scope of the audit. This is an important fact to note with

regard to bias and the role it played in these events. In his statement of allegations to PIPS and in subsequent interviews with the Audit and Review Branch and the Internal Affairs Department of PWGSC, Mr. Cutler had not suggested or provided any evidence that the irregularities he was observing were intended for personal benefit or gain. Given his position within the organization as a procurement expert, his lack of insight on this point was not surprising. On the contrary, it would have been highly unusual and improbable that anyone contemplating graft or fraud would have explicitly included provisions to this effect in the terms of the contract. Such corruption is, by its very nature, clandestine and privately arranged. Mr. Cutler, a man who was meticulous in ensuring that all of his allegations could be supported, was neither well placed nor qualified to pronounce on whether any of the irregularities he observed might eventually lead down that path. His sole expertise lay with the policies, rules and regulations governing the contracting process. When asked by Internal Affairs at PWGSC whether he had detected any evidence that the irregularities he observed had been intended for personal benefit and gain, he responded truthfully that he had not. It was in this context that the Internal Affairs Department reported this statement to the Audit and Review Branch.

In June 1996, following a second interview with Mr. Cutler, Mr. Steinberg wrote a memo to the ADM, Mr. Stobbe, in which he made the following statement:

> The issue here is one of policy and procedures which may themselves be faulty, however individuals are trying to overcome these by taking shortcuts or inventing methods that have led to willful alteration of documents which, if examined by an audit or outside regulatory agency would raise questions of probity in the manner in which the department is fulfilling its duties and obligations with respect to contracting.[21]

In the same memo, Mr. Steinberg stated that the actions that had been reviewed did not appear to be for personal gain, and instead raised questions of an ethical nature.[22]

This apparent prejudgment of the nature of the irregularities was to have a determining influence on the nature and scope of the audit that was commissioned. Rather than a more expensive and detailed forensic audit, which would have followed a money trail and likely uncovered evidence of any graft, the Audit and Review Branch opted to have Ernst & Young undertake a very modest $34,500 compliance audit of APORS, an exercise that would establish only whether the sector's contracting practices conformed to the policies and regulations of the Department, Treasury Board and the *Financial Administration Act*. In what appears to have been an eleventh-hour attempt to cover all the bases, Mr. Steinberg added to the original terms of reference an obligation for Ernst & Young to indicate in its final report whether it came across any evidence of personal benefit or gain associated with these irregularities. This extension to the scope of the compliance audit was made even though, as Mr. Steinberg later testified at the Sponsorship Inquiry, he was aware that a compliance audit was an inappropriate tool to determine matters of this nature. By using this inappropriate audit tool to address the issue of personal benefit, PWGSC started down a slippery slope to misinterpretation and obfuscation of the facts, in effect almost wilfully ignoring the rattle of the nail coming loose from the shoe.

The first draft of the report that Ernst & Young produced was submitted to the Audit and Review Branch in September 1996, to the attention of Mr. Raoul Solon, the Assistant Director and PWGSC manager in charge of the file. The draft made clear in very explicit and straightforward language that the incidents of non-compliance that had been uncovered in the course of the review of advertising contracts between June 1994 and June 1996 were both extensive and serious:

> Our audit findings reveal non compliance to policies and procedures on a consistent basis. Fortunately, no legal action or public attention has resulted from the deviations thus far. In order to avoid potential embarrassing situations, it is best to address the issues immediately.[23]

The draft included a risk assessment that spelled out four consequences arising from these irregularities that might make the Department particularly vulnerable. These included the possibility that APORS was not complying with Treasury Board and other contracting policies; that contracts could be awarded unfairly and benefit selected contractors; that the tendering process could be perceived as lacking transparency and therefore opening the Government to criticisms; and that the Government might not be receiving full value for money.[24]

In this first draft, Ernst & Young auditors also made clear the limitations that had been placed on them with regard to their ability to carry out the full scope of their work. These limitations were relevant, in particular, to their ability to detect and verify whether the irregularities uncovered in the course of the audit were associated with incidents of personal gain or benefit. Their initial draft read:

> We would like to report that limitations were placed on our audit and as a result, our findings may not address certain issues. Particularly, our audit was directed toward the contracting processes and its compliance with related policies and procedures. Our audit did not address the issue of personal gain as many of the parties remain unknown throughout the process. Furthermore, we were unable to interview the party that brought forward some of the deviations and as a consequence we were unable to determine if other high risk areas should have been audited.[25]

The language and content of the first draft was not to stand. After several conversations and meetings with Mr. Solon of the Audit and Review Branch, the final report submitted by Ernst & Young appears to cast a

different interpretation on the findings. Gone was any reference to the limitations on the scope of the audit. Gone was the paragraph identifying the major areas of risk. Gone was the straightforward language with regard to the extent and nature of the irregularities. Instead, the incidents of non-compliance that had been described in the first draft as "serious and consistent" were recast in the body of a more favourable "General Assessment" that downplayed their extent and importance. The final report read:

> The audit of the advertising contracting processes determined that APORS contracting activities generally follow the prescribed contracting policies and procedures but that there are recurring instances of non compliance with specific contracting policies.[26]

The report went on to declare that no evidence of personal gain or benefit had been detected, a finding that could be misleading without the qualification and context provided by the absent paragraph on scope, or by any explanation of the reliability of a modest compliance audit in terms of providing such assurances.

The final summary also differed from the original draft in the absence of any "weighting" of the various areas of non-compliance that had been discovered. As was pointed out in testimony given by the auditors from Ernst & Young, there were certain rules in the competition process that, if not respected, jeopardized the fairness of any action or process that followed thereafter. None of this analysis appears in the summary document forwarded to the senior managers on the Audit and Review Committee. Again, the absence of such essential context significantly veiled the seriousness of the irregularities in a cloud of indiscriminate generalization that did not do justice to the true nature of the findings.

While, at the Sponsorship Inquiry, the memories of all concerned seemed to be vague on what had actually transpired between Mr. Solon and the Ernst & Young auditors over changes to the wording of their

findings, it would appear from the testimony that the differences in tone and content between the first submission and the final report were strongly influenced by these discussions. Although there is no question that any final version of that first draft would have included refinements to the language that would have made its presentation more polished and professional, it would seem unlikely that the auditors would have left aside this critical information regarding scope, risk and the consistent nature of the irregularities had there not been some pressure on them to do so. Keeping in mind that this was not an independent external audit—Ernst & Young was in this case acting as an extension of and performing under the authority of the Audit and Review Branch at PWGSC—it is not entirely surprising that its findings were assessed in a collaborative manner and the results framed in language acceptable to both parties.

The final report from the Ernst & Young audit was presented to ADM Jim Stobbe in November 1996. In its conclusion, Ernst & Young stated:

> The initial mandate of APORS was to provide advisory services…to government departments on advertising and public opinion research…. [G]iven procurement is only a small portion of their activity…[individuals are] not specifically trained in …[the procurement] function. They…[do not have the] necessary expertise as it is not their primary goal. It may be more beneficial to all parties to incorporate the procurement of advertising and opinion research within the normal procurement stream of PWGSC.[27]

In assessing these statements by Ernst & Young, the recommendation to return the procurement function of APORS to the mainstream of the Department represents a reasonable and appropriate channel of redress. It would re-establish the original system of checks and balances that had protected that aspect of the function from manipulation prior to the amalgamation under APORS and, by so doing, presumably

rectify the irregularities that were occurring under Mr. Guité's authority. But, was APORS actually lacking this expertise? During the two-year period that was the subject of their audit, Mr. Cutler and two other procurement specialists—the same individuals we know had been responsible for procurement when the contracting function was part of the PWGSC mainstream—had been brought into that new unit specifically to continue their responsibility for that function. Nothing in that move had altered their level of expertise in this regard—only their reporting structure, physical location and the independence of their duties from the selection and assessment process. The fact that irregularities had occurred was not due in any sense to a lack of expertise within APORS; it was directly attributable to the fact that the procurement experts were ordered by their superiors to ignore and circumvent the proper rules, regulations and procedures, and were thereby prevented from doing their job.

This "lack of expertise" rationale becomes even more curious in the context of events that were occurring within APORS at that time. It was exactly during this same period in 1996 that Mr. Guité had taken steps to have Mr. Cutler, his chief procurement officer, declared "surplus." While the Audit and Review Branch was constructing its report around the fact that APORS lacked procurement experts, Mr. Cutler was forced to show up for work every day for three months but was given nothing to do. If his predicament was not immediately known to the auditors at Ernst & Young, it almost certainly had not escaped the notice of the senior PWGSC managers directly involved in the development and verification of that final audit report.

Apparently, no one noticed the irony. More important, these auditors and managers let the faulty assumptions of the report's conclusion stand as truth, which at the very least represents an abrogation of the duty of internal audit to provide the Deputy Minister with reliable intelligence. Mr. Stobbe duly accepted the report from Ernst & Young,

then followed the established protocol for audits and sent a copy of the findings to Mr. Guité with a request for an "action plan" outlining how he intended to address the irregularities. Evidently, the request held no urgency for either party, since it was not until six months later that Mr. Guité finally informed the auditors that he was in agreement with the recommendation to return procurement to the PWGSC mainstream. With this step accomplished, the Ernst & Young report and action plan were placed on the agenda of the next Audit and Review Committee meeting, scheduled for July, at which time the Committee members accepted both items as written.

Testimony at both the Public Accounts Committee and the Sponsorship Inquiry support the fact that, not surprisingly, the Deputy Minister and his Committee colleagues found nothing particularly alarming or unusual in the Ernst & Young Report. Indeed, there is some evidence that the Deputy Minister, PWGSC, Ranald Quail, never actually read beyond the "General Assessment" included in the summary which, having put the findings in the context of a generally favourable assessment, would have reassured him that the irregularities were of a minor and readily "fixable" nature. Despite the unusual provenance of this particular report, he did not question its conclusions or the rationale that supported them, perhaps a reflection of the level of confidence he held in the integrity of his audit system to present an accurate and reliable assessment of these alleged wrongdoings. To this day he affirms:

> This is a question of the lack of expertise. I read that as a lack of expertise question. I didn't read it specifically as Mr. Guité and that we had to solve the problem of the lack of expertise. If you have solved the problem of the lack of necessary expertise…that we would have met the recommendation….[28]

Thus, the "lack of expertise" myth became a matter of official record. To an outside observer, the resistance or inability of both the PWGSC

auditors and the Audit and Review Committee to entertain the notion that the irregularities might have been attributable to wilful wrongdoing, or even managerial incompetence, seems both naive and somewhat unbelievable. Mr. Quail's confidence in Mr. Guité's ability to deal with the issues raised by the audit never appears to have wavered. He testified:

> [T]here was no suggestion that the Action plan, as put forward by him, couldn't be done. He was a senior individual, experienced executive, in my view. That is what his track record was, and I believed that he could do the job.[29]

Such a forgiving attitude was no doubt supported by the auditors' assurance that there was no evidence that these irregularities resulted in personal benefit or gain. The reliability of a low budget compliance audit to provide such an unqualified assurance was apparently never questioned by members of the Audit and Review Committee. Having removed in the final report the "limitations" section of the original draft that would have put this assurance in the proper perspective—indeed, in having included this requirement for assurance in the scope of a compliance audit to begin with—the Audit and Review Branch may have misled the Committee with regard to this important issue. As a result, myth and false assurance took on the veil of truth and became the basis upon which the Committee granted its acceptance of the report and action plan.

As required by policy, the executive summary of the Ernst & Young report and the action plan, along with those of the other five audits considered at the July meeting, were forwarded that fall to Treasury Board for review. Mr. Steinberg testified that he never highlighted the findings of the APORS report as being anything other than routine irregularities. In fact, from his comments it seems obvious that he felt that the onus was on Treasury Board to review the summaries and contact the Department if anything appeared irregular or particularly worrisome. Mr. Steinberg testified:

> The expectation was that the Treasury Board folks would go through the documents, get a feeling for what is there and, if they had a greater interest, would have reported back, would have asked us.... I am just trying to say that all of our audit reports surfaced problems, all of the audit reports that went over to Treasury Board were indicative of problems that surface during an audit covering a range of audits that we had done.... [I]f there were findings that were material or significant that had government-wide implications we would take it upon ourselves to notify the people in Treasury Board.[30]

The submission of the executive summary and action plan was accomplished as a largely *pro forma* exercise. Nothing in the summary report of the APORS file evidently struck the officials there as anything more than routine either, and no follow-up or further inquiry was triggered by this central agency.

## 1.4
## Mr. Guité's Gamble

The principal requirement of the action plan prepared by Mr. Guité—to return the procurement function of APORS to the mainstream of the Department—was never implemented. When the Audit and Review Branch approached APORS six months later to confirm that the appropriate measures had been taken, they were told that nothing had been done. In fact, Mr. Guité is quoted as saying, "Well, I am not very keen on this. I am reluctant to implement this action plan."[31] While admitting that, "I don't think it would have been difficult to execute, to put the action plan in place,"[32] Mr. Steinberg testified he saw nothing particularly unusual in Mr. Guité's response. Asked if this reluctance to comply with the recommendation was not a red flag, he responded, "My answer is no. I would not have [thought it a red flag] six months later after if Mr. Guité was saying, 'I need a little bit more time to get myself organized.'"[33] Deputy Minister Quail, in his testimony before

the Public Accounts Committee, offered a more straightforward and telling explanation of why procurement at APORS was never returned to the mainstream:

> That was the way he [PWGSC Minister the Honourable Alfonso Gagliano] wished to have that group [APORS] organized.... [H]e wanted procurement left alone.[34]

## 1.5
## The Creation of CCSB

In November of 1996, almost at the same time as Mr. Stobbe received the final report on the Ernst & Young audit, PWGSC submitted a request to Treasury Board for $34 million in additional funding over a two-year period for sponsorships. The submission was signed by both the Minister of PWGSC, the Honourable Diane Marleau, and Prime Minister Jean Chrétien, an exceptional endorsement that indicated to everyone within the public service the priority that was being placed on this initiative. The money was to support a "Government of Canada initiative to promote all its programs, policies and services by means of sponsorship through selective events across Canada."[35] This submission was considered by most to be the launch of the Sponsorship Program, although selected events had received support prior to this period under the general Government advertising envelope, and despite the fact that the "program" was not officially designated as such until 2002. The departmental contact for this submission was listed as Charles Guité, the Director of APORS.

In November 1997, Mr. Guité was awarded still greater management responsibilities and funding as the head of a newly created entity called the Communication Coordination Services Branch (CCSB). The new Branch took over some of the responsibilities that had been previously

handled by the now-privatized Canada Communications Group, incorporated APORS, and was to provide secretariat support to the Cabinet Committee on Communications. Although this was only a scant four months after the Audit and Review Committee had examined the results of the Ernst & Young audit, and notwithstanding the grievance filed against Mr. Guité by his former procurement officer, Mr. Cutler, there appeared to be no reluctance by the Deputy Minister to award this new budget and expanded contracting authority to this same manager. Mr. Quail testified before the Public Accounts Committee:

> [I]t did not occur to me that it [the 1996 Ernst & Young audit] was a relevant document, that we had dealt with it, we had taken action with it, and we had put it to bed and we had moved on. . . .[I]t was a simple as that. . . .[36]

In defence of Mr. Quail's position on this matter, it must be remembered that he had judged the seriousness of the irregularities uncovered by the Ernst & Young audit based on the generally favourable general assessment and assurances that had been offered in the 1996 executive summary. He had no reason to doubt the auditors' conclusions. All of his remarks under questioning indicated that he trusted the findings of this audit and believed the irregularities had been the result of routine administrative problems. He was also aware of the close relationship Mr. Guité enjoyed with the political masters and the Prime Minister's personal interest in this file. Mr. Quail was, it appears, respectful of Mr. Guité as an expert in the field of advertising. He evidently felt there was nothing in the findings of these recent investigations that warranted barring Mr. Guité from assuming this new position and, in fact, based on the experience Mr. Guité already had with advertising and sponsorship, much to recommend him.

## 1.6
## The 2000 Internal Audit

It was not until the HRDC scandal of 2000 triggered a requirement by Treasury Board for all government departments to audit "grants and contributions" programs that Mr. Guité's activities with sponsorships were determined to be similar enough in design to that model to be caught in the net of that horizontal audit initiative.

The internal audit that followed, conducted by the same Audit and Review Branch and under the authority of those who had overseen the 1996 audit, was tasked with examining two aspects of the Sponsorship Program—first, the decision-making process for entering into sponsorship agreements, and second, the contracting process for the agency of record and communications agencies that provided services for sponsored events.[37] The audit began in February 2000 and looked at 276 of 580 existing files that had been chosen on the basis of risk.

The results of that audit revealed that these files contained deficiencies that were very similar in nature to those detected four years earlier by Ernst & Young: lack of documentation; non-compliance with Treasury Board rules and directives; lack of transparency in decision-making; and questionable value for money.[38] This time, however, Mr. Steinberg admitted in testimony before the Public Accounts Committee that these findings were both "significant and unacceptable."[39]

As with the 1996 audit, it was a preliminary draft of the 2000 audit report that was most forthright and candid in articulating the irregularities uncovered. More important, it referenced its findings against the action plan of the 1996 Ernst & Young audit and concluded that, "no evidence was found to conclude CCSB management fully implemented the recommendations of the 1996-97 audit." The draft

report made it clear that, in the opinion of the auditors, this oversight was a significant factor in the perpetuation of the contracting irregularities that had been uncovered, and recommended that a follow-up audit to ensure compliance be performed one year following the acceptance of the 2000 report.

Remarkably, the final report of the 2000 audit that was submitted to the Audit and Review Committee in August of that year contained no reference whatsoever to the findings of the 1996 Ernst & Young report, or the relationship between the 1996 findings and the irregularities uncovered in 2000. No mention was made of the fact that the action plan was never implemented. Testimony at the Sponsorship Inquiry confirmed that senior managers at the Audit and Review Branch had taken a conscious decision to remove any reference to the earlier Ernst & Young report. That decision was based on the fact that no audit had actually been conducted that could substantiate the statement that the action plan had not been implemented. Thus, the failure of managers to follow up on irregularities uncovered in one audit was used as the basis to exclude these earlier findings from the report of a second audit. It was a quintessential moment of bureaucratic "ass-covering" worthy of its own episode of "Yes Minister," but in terms of the true purpose of internal audit, it was also an abdication of integrity. Consequently, the Minister of PWGSC, the Honourable Alfonso Gagliano, when briefed on these year 2000 audit results, had no way of knowing that a similar review had been conducted four years earlier revealing equally serious breaches of compliance, or that the measures to address these deficiencies had not been pursued.

Consistent with the tone and language used in the 1996 report, the irregularities found in 2000 were again profiled by the auditors as "administrative" in nature. In fact, Denis Desautels, the former Auditor General of Canada and an expert in the field of auditing, found that:

> [T]he conclusions they came to could be said about virtually any audit: "did not fully comply with the spirit…process is subjective…does not ensure that decisions are transparent…." What they say is not very helpful; they used very soft language that doesn't reflect the real abnormality of the situation.[40]

It appears obvious that, despite the extent of the irregularities discovered, the intention of the 2000 report was to downplay their seriousness and convey the impression that the wrongdoing was more in the realm of clerical error than gross mismanagement. As with the previous audit, the report was submitted to the Audit and Review Committee with a 27-point action plan designed to quickly remedy these "administrative" ills.

There is some question as to whether assurances that there was no personal gain or benefit associated with these irregularities were again proffered by the auditors on this occasion. According to the Minister, Mr. Gagliano, they were. His recollection of this assurance from Mr. Steinberg is as follows:

> I took a few steps into my own office and I came back, and my first question was: "Should I call the police?" And the answer was: "No. There has been no criminal activity. It's just bad management of the files, etc." And there, they proposed to us an action plan and we discussed the action plan.[41]

Mr. Steinberg, however, has a different recollection of events. In his testimony before the Public Accounts Committee, he stated that he was:

> deeply concerned that there were perceptions that these findings had been characterized as administrative in nature: I consider these lapses to be significant and unacceptable. I never used the word "administrative," nor would I, as these were significant material lapses.[42]

Whatever the truth, a heightened sensitivity to these matters had gripped official Ottawa as a result of the fallout of the HRDC scandal, and the sponsorship scandal was beginning to attract some attention from the media. Daniel Leblanc of the *Globe and Mail* had filed an access to information request with the Department asking for all records relating to sponsorships in the 1994-1995 period. Senior managers at PWGSC were aware that this was the period that had been covered by the 1996 audit and that the summary of that audit report, though substantially muting the real level of irregularity uncovered, would be readily available through access to information, as would the 2000 report. If any evidence of a link between the two had been purged from the official transcript of that latter report, it was unlikely that an inquisitive investigative reporter would not eventually connect the dots and follow the trail of ongoing irregularity in this politically sensitive program.

Finally, the Official Opposition and members of the Government's own caucus were beginning to ask their own questions about sponsorships. Although originally profiled as a means to promote government programs throughout Canada, it was becoming increasingly obvious to Liberal MPs that most of this well-endowed fund was being devoted to Quebec events, and pressure was being put on both the Minister and officials to spread the largesse beyond Quebec.

With the heightened sensitivities at play at the time, the results of this audit could not be flown under the radar of Treasury Board or the Auditor General, who undertook her own investigation into three advertising contracts awarded to the advertising company Groupaction. Even with the irregularities explained in the most benign of terms, the temper of the times conspired to make the findings of this audit a bit of a *cause célèbre*. The nail had finally worked itself loose from the shoe.

## 1.7
## The Post-2000 Audit Period

The Audit and Review Branch of PWGSC did carry out a follow-up compliance audit on CCSB as prescribed in the action plan, albeit six months later than intended. The delay was imposed to accommodate the fact that many of the measures in the action plan could not be implemented until the beginning of the new fiscal year the following April. CCSB had by then been disbanded and its responsibilities transferred to a newly created entity within PWGSC called Communications Canada. Mr. Guité had also retired in late 1999. His replacement was Pierre Tremblay, former Chief of Staff to the Honourable Alfonso Gagliano. When the follow-up audit was completed in 2002, the results revealed a much-improved profile in the administrative management of sponsorships. In the sample of 120 files taken from the total of 323, all, with very few exceptions, were found to be properly documented. Again, this audit examined only whether all the required documentation was present in the files. It did not "follow the money."

In May 2002, the Auditor General presented her Special Report to Parliament in which she outlined the findings of her audit into the three sponsorship contracts awarded to Groupaction. The public announcement of her findings, a damning indictment of the management of these sponsorships, and a referral of these files to the RCMP, triggered a maelstrom of Opposition and media attention.

In an effort to manage the information and ensure that the Minister was prepared to respond appropriately to an outraged Opposition in Question Period, as well as to satisfy the barrage of access to information requests raining down on the Department, a Quick Response Team was assembled from among departmental employees. Their mandate was to review 126 of the 721 sponsorship files for the 1997-1998 period,

while a separate group from Consulting and Audit Canada, a government agency specializing in all aspects of financial administration and audit, was commissioned to review all 721 files for their completeness and assess them for areas of concern. It was the outcome of these latter investigations, no doubt coupled with the Auditor General's scathing report, that finally convinced senior managers at PWGSC that the time had come to call in the forensic auditors.

The forensic investigation revealed many of the same irregularities uncovered in 1996 and 2000, but in this instance the potential for fraud and corruption in these irregularities could not be ignored. The forensic audit findings mirrored many of the concerns raised by the Auditor General in her 2003 Report, including breaches of the *Financial Administration* Act, Treasury Board and departmental policies, over-billing, lack of competition for contracts, suspicious variations in hourly rates, deficiencies in record management and numerous practices that brought into question the value for money the Government had received from these sponsorship events. The Sponsorship Program quickly spiralled into a political nightmare, a shoeless horse galloping wildly into the night, its rider perilously grasping control of the reins in an effort not to become unseated, until mud was flinging in all directions as the baying of the wolves at heel grew louder.

## 2 How to Explain "Such Lack of Care"

Even to the lay observer, it is obvious that the role of internal audit as a reliable tool of oversight of performance and financial management in government failed the senior management at PWGSC on several important counts throughout the sorry history of the sponsorship scandal. The salient question is "Why?" Why would an audit branch seek to subvert the message of its own findings in its reporting to senior management? What cultural, institutional or structural factors might be at play that would encourage auditors to purposefully avoid investigations of activities that posed a significant risk to the Department?

Was it incompetence, poor judgment, a lack of appropriate systems and oversight, or were there other environmental and cultural factors that might have conspired to frustrate the integrity of the audit process?

## 2.1
## Competence and Judgment

As Arthur Kroeger once remarked, "Judgment is like electricity—hard to describe but very evident when it fails." It is highly conceivable that at critical points in the audit history of the Sponsorship Program, those responsible for pivotal decisions on when and when not to audit, simply got it wrong. The Audit and Review Branch at PWGSC was shown the first red flag in 1995 when Deputy Director Julie Ginley uncovered problems with regard to the transparency of the advertising contracts, and excessive pricing. An audit was recommended. There was judgment exercised by the audit team in choosing not to pursue that recommendation. A similar decision to eliminate APORS from the audit roster was taken again the next year.

Likewise, when APORS could no longer be ignored following Mr. Cutler's allegations, the auditors may simply have believed Mr. Guité's version of events and dismissed the procurement officer as a malcontent. The Ernst & Young audit may have been undertaken as a *pro forma* exercise designed only to satisfy the Department's obligation to follow up, without any real expectation of uncovering serious wrongdoing. Mr. Steinberg's letter to Mr. Stobbe, cited above, certainly seems to support this theory, but equally it calls into question the competence and judgment of the auditor in assessing the scenario surrounding the allegations and choosing the appropriate audit tool. The answers you get depend on the question you ask, and in this sense, the head of audit exercises great discretion when defining the type and scope of investigations.

## 2.2
## The Politicization of Internal Audit

According to Professor Denis Saint-Martin, the lack of willingness of the members of the Audit and Review Branch to seriously question the activities of APORS might well be explained by what he calls the "structural politicization" of the public service.[43] According to Professor Saint-Martin's thesis, the federal bureaucracy does not remain neutral in the face of threats to the integrity of the country such as that posed by the near-victory of the separatists in the Quebec Referendum of 1995. He states:

> [I]t is not an exaggeration to say that, as a value, the promotion and the defence of national unity constitutes an important part of what one might call the "institutional genetic code" of the Canadian public service.[44]

If Professor Saint-Martin's theory is valid, this "institutional genetic code" among public servants to protect national unity at all costs would have been at its most heightened state in the politically-charged atmosphere of the post-Referendum period. Mr. Guité's declaration that, "the rules did not apply" to him or his Department takes on a new complexion when viewed in the context of this "greater political cause." Although his words, taken out of that context, appear to be an arrogant and unacceptable flouting of all standards of responsible public administration, that statement, in the context of the times, in his own mind and in the mind of his political masters, was fully justified by the need to defeat the separatists at any cost. If rules were broken along the way to accomplishing that higher objective, it was perceived as collateral damage and inconsequential in terms of the larger threat to the Canadian state. As Professor Saint-Martin points out, since the fallout of the sponsorship scandal, Mr. Guité has "played the patriotic card fully" as a rationale for his behaviour and continually justified his

contravention of the contracting rules because the federal government was "at war with the separatists."[45] Even Prime Minister Chrétien seemed to echo Mr. Guité's justification when he dismissed the gravity of the money lost to sponsorship as minimal compared with the cost of losing the country. In an interview with *Globe and Mail* reporter Daniel Leblanc, Mr. Chrétien is quoted as saying:

> Maybe a few million got lost along the way, but how many millions and millions were saved because we were able to reestablish the stability of Canada and protect the unity of the country?[46]

Could this "institutional politicization" explain the reluctance of the Audit and Review Branch to fully delve into or disclose the irregularities occurring within Mr. Guité's domain? Were its decisions influenced by a political bias that rationalized the need to cut corners if the country was to be saved? Certainly, Mr. Guité's assertion that the rules of everyday contracting were not workable in the context of a national crisis and therefore did not apply to him seemed to have gained some resonance with the head of auditing, Mr. Steinberg. Evidence of this is suggested in the wording of Mr. Steinberg's early memo to ADM Jim Stobbe when he refers to "rules that themselves might be faulty" in his explanation of the irregularities that had been discovered at APORS. A philosophical alliance of public servants with Mr. Guité's cause might also explain the auditors' seemingly premature conclusion that the errors were entirely administrative and therefore not intended for corrupt purposes. In the context of Mr. Guité being seen by his colleagues as a patriotic foot soldier fighting in the battle to save Canada, it would have seemed petty and inappropriate for the auditors to have questioned his motives or to have pursued a forensic audit when the very future of the country hung in the balance.

Although other cultural factors characteristic of the public service may also have been at play, the concept of bureaucratic politicization also helps to explain why the Audit and Review Branch and senior managers

apparently had so little sympathy for the fate of the "whistleblower," Mr. Cutler. Viewed through the prism of Professor Saint-Martin's theory, Mr. Cutler might have been perceived by the bureaucracy as more of a "traitor" to the cause of national unity than an ethical and courageous public servant. His obsession with the regularity of rules and procedures would be seen as irrelevant and inappropriate in light of the political circumstances. Mr. Guité's condemnation of Mr. Cutler as "not a team player," and his apparently unopposed declaration of Mr. Cutler as "surplus" to the Department, seems to support the idea that Mr. Cutler was held in contempt by both his colleagues and the management at PWGSC, and that he was viewed as someone unable to "get with the program" in the face of a national emergency.

## 2.3
## The Impact of Political Interference

On the other hand, it is entirely possible that the answer to why auditors ignored or deferred to Mr. Guité had nothing to do with patriotic fervour. There is a very high probability that the reluctance of PWGSC auditors to poke the sleeping giant within their midst was simply a classic manifestation of the bureaucratic instinct to defer to political power and stay out of the path of political masters. The covert, off-the-grid nature of Mr. Guité's shop, the unusual and high-level political reporting relationship he enjoyed and touted, the man's apparent power to act with impunity, and his flouting of the rules sanctioned, if not orchestrated, by the executive level, were all message enough to the average gun-shy public servant that this was one area best avoided. This tendency of bureaucrats to deference, complicity and in some cases, sycophancy when dealing with the political level, could easily explain why the auditors repeatedly looked the other way, watered down the language of reports, ignored Mr. Guité's failure to implement his action plan, and generally avoided, to the greatest degree possible, any contact with the small group known as APORS.

They could not be faulted for this avoidance. The decision to determine who to audit is discretionary. There are always enough sectors with a noticeable level of "risk" in any given year without the auditors purposely seeking to ruffle the feathers of the political deities by harassing their chosen one with unseemly probes. In the early years, their avoidance may well have been instinctive. After 1996, with Mr. Cutler's hide proverbially nailed to the barn door, there was ample evidence that their instincts not to meddle had been right. "They were wary of him [Mr. Guité],"[47] said one former Deputy Minister. Even those in senior management were warned off the chase. When, following Mr. Cutler's allegations, ADM Jim Stobbe appeared to take too strong an interest in what was occurring in APORS, the pushback from the Langevin Block came in the form of a call from the Deputy Clerk of the Privy Council, Mr. Ron Bilodeau, to Deputy Minister Ranald Quail, in effect warning him to call off Mr. Stobbe's questioning of the Sponsorship Program.[48] Whether the message was implicit or explicit, the Department understood that it was not to meddle with Mr. Guité. The decisions of the Audit and Review Branch could well have been simply a reflection of that understanding.

This perspective would also explain the auditors' reluctance to embrace the revelations of Mr. Cutler. On one level, the bureaucracy's dislike of whistleblowers is nothing new. While it might seem counter-intuitive that those public servants who demonstrate the highest standards of professional ethics by coming forward to expose government wrongdoing or corruption would be vilified by their colleagues in the public service, it is in fact more often than not the case. As Brian MacAdam, a former career foreign-service officer and expert witness before the Public Accounts Committee, stated in testimony:

> The typical attitude of bureaucracies to bad news is that we shoot the messenger: if it happened in my ministry or division, then it's a negative reflection on me, and no news is good news.[49]

There is also, no doubt, some natural defensiveness on the part of the Audit and Review Branch in the light of revelations by a public servant. By the very act of disclosure, whistleblowers reveal that internal audit has failed in its job. It presents a reversal of traditional roles that is entirely unwelcome, where the negative consequences of "getting caught out" are suffered by the auditors rather than the other way round. Once such disclosures are revealed, an audit branch must retrace its tracks, support management efforts to contain and control the damage, and work with those responsible to correct the situation. This represents a crisis for an audit branch, an extraordinary and highly sensitive task that must be managed with the available resources or for which extra funds or resources must be found. In the case of the Cutler allegations, it also meant that the Audit and Review Branch could no longer turn a blind eye to APORS. It was forced to poke the sleeping giant. It was no surprise then that it chose the smallest and least intrusive stick with which to pursue that probe. In fact, it ensured that someone else altogether wielded the stick, and then took on the role of shield when the barbs probed too near to the truth. In so doing, the Audit and Review Branch became the giant's ally and was perhaps thereby delivered from his wrath. It would also explain why the auditors did nothing to protect Mr. Cutler from Mr. Guité's ruthlessness thereafter.

## 2.4
## The Influence of Audit Culture

To assume that all internal auditors perform their function completely without bias or, in some instances, their own agenda, would be false. While many auditors undertake their duties in a professional and objective manner, it has become apparent from discussions with senior managers[50] that the culture of internal audit has in some ways and to varying degrees itself become a significant impediment to its appropriate functioning. It is the impression of managers that the auditors no longer approach their duties in the objective, clinical fashion that the pure theory

of internal audit suggests, but rather bring to the table a set of attitudes, philosophies and objectives that may serve to taint and frustrate the process. Chief among these is what has been described as the "gotcha" mentality, whereby the subtext of many audits becomes the imperative to come up with "something"—anything that will reflect poorly on management. This less-than-open-minded approach often leads to what is known as "mandate creep"—the tendency of auditors to go beyond the scope and methodology prescribed in the terms of reference of an audit and examine other aspects that they find more enticing, or to which they have more of a philosophical and/or educational predisposition. It is felt that the "look what's over there" mentality is a manifestation of auditors' desires to never come up empty-handed. The amount of time that is required by managers to negotiate the text that results from this "mandate creep" is, according to one manager, "incredible."[51]

The audit methodologies chosen by auditors can also be at odds with changing approaches to management. Programs may be assessed against standards that are no longer relevant to or accommodating of legitimate changes in management practice. One former ADM described this type of situation as follows:

> The Internal Audit Bureau did not review its task of auditing grants and contributions as new and thereby requiring tailor-made methodology. Auditors simply viewed the audit as an extension of the way they did similar audits in the past. While the programs might have been changing, the audit standards were not....[52]

Whether this intransigence on the part of auditors is intentional, or merely the result of a lack of synchronization between the evolutions of methodology in audit practice with that of management technique, is irrelevant. The result is an inevitable clash of cultures, a buildup of frustration and resentment on both sides of the exercise that galvanizes antagonism and corrodes the effectiveness and efficiency of audit as a support function of management.

There is another cultural aspect of audit that was repeatedly cited by managers. That is a phenomenon known as audit arrogance, an attitude encouraged by the auditors' belief that they are "untouchable" in terms of management reach or control and are therefore an omnipotent force unto themselves. This arrogance is also manifest in what has been sometimes referred to as "audit rhetoric,"[53] the penchant of auditors to pontificate on the potential implications of their findings rather than limit their reports to a clinical assessment. The "just the facts, ma'am" expectation of management is therefore at odds with an auditor's predilection to accompany findings with more colourful commentary, statements that can cast a particular spin or interpretation on the findings that may or may not be justified by the facts but that, in any case, exceed the audit mandate. More appropriate to the audit would be what David Good refers to as "audit humility,"[54] a conservative approach to reporting that removes the journalism and punditry from audit reporting and confines results to a strict clinical analysis of the program under review.[55]

There are institutional factors that affect the culture of audit and that can influence the relationship and affect the comportment of both audit team members and the managers they serve. In a hierarchical system such as the public service where salary, status and employment privileges, the size of one's office, allowable furnishings, parking, or even the provision of windows, are based on levels and classifications within a tightly controlled pecking order, there is a fundamental disconnect between the authority, autonomy and power of the auditors and their actual ranking within the bureaucratic system. While the heads of audit branches are generally classified in the executive category and a handful of the more credentialed members are classified in the financial officer or "FI" category, the majority of internal audit foot soldiers fall into the "AS" group, a designation indicating that their duties are of an administrative or clerical nature and are, in essence, a support

function. The natural human tendency for those of an inferior status to try and bring down a peg or two, or at the very least rattle, the titans above them cannot be discounted. Nor can the contempt of managers forced to negotiate serious matters with inquisitors far beneath them in the institutional ranking.

Seen through this paradigm, internal audit might be viewed in terms of a subtle class war, where the lower status auditors have, fantastically, been awarded magical powers with which to antagonize and frustrate the ambitions of their betters, and the mandarins in response seek to contain and limit the extent of those powers. This status-induced "we-they" attitude plays out at different levels, depending on the culture of each individual department and perhaps explains why some Deputy Ministers give little "face time" to heads of audit and insist that they report at a more appropriate level, while others make all the time necessary for them. It might also shed light on the origins of the cat-and-mouse relationship that sometimes develops between auditors and those they audit and the fervour with which some investigators pursue their "gotcha" style of auditing.

The relatively low professional status of departmental auditors can also have some influence on the type of personality, level of training and competence of the incumbents. Unlike the private sector, where a significant period in internal audit is a compulsory milestone for those on their way to the top, the public service demands no such experience of its future leaders. As a result, internal audit is bypassed by the best and brightest on their route to the upper levels, with the result that many senior managers may arrive there with little understanding of the audit function and, therefore, its utility. Likewise, while many pursue this occupation by choice, internal audit departments are also renowned as a holding tank for bureaucratic drones, a reservoir where those without the capacity for higher duties are relegated and left to fester along with their professional resentments.

All these factors come home to roost in what has increasingly become an "audit society." I am told managers would readily accept the outcome of appraisals if they were undertaken by competent, objective audit professionals who were clinical in their approach and who designed audits solely with the intention of identifying gaps in program performance or financial regularity. However, the combination of philosophical bias, questionable methodologies, mandate creep, the "gotcha" mentality and, sometimes, the sheer incompetence exhibited by auditors, results in valuable hours being wasted at all levels negotiating the language and veracity of reports. This dynamic can lead to the development of antagonistic rather than collegial relationships and, occasionally, personal animosities between auditors and managers. When this dynamic develops, as it apparently often does, audit becomes a weapon of internal politics, a contest between the "checkers and the doers" that brings significant inefficiencies into the machinery of government and poisons the atmosphere of departments and the morale of public servants.

On the face of it, this analysis of audit culture would seem in effect to lay waste to the theory that the auditors at PWGSC would have been anything less than vigilant in their pursuit of Mr. Guité. It suggests that the information disclosed to Ms. Ginley in 1994 would have been like blood to the hounds and should have set the auditors eagerly on the trail with the single-minded intent to ferret out the wrongdoing. The fact that this did not happen must also be considered instructive. Why did the auditors not pick up the scent? Was it sympathy for the federalist cause, political interference, missed cues?

There is one other explanation, however facile, that must be considered. The auditors may have simply very much liked, and therefore believed, Mr. Guité. By all accounts, he can be a charming and persuasive man, even possibly an example of the type of manager that Professor Hare at the University of British Columbia calls a "corporate psychopath."

According to the professor, these individuals are "ruthless, manipulative, superficially charming and impulsive—the very traits that are landing them in high-powered managerial roles."[56] Even after all evidence had been exposed that alleged serious wrongdoing and possible corruption on his part, Mr. Guité sounded almost believable when professing his innocence at the various inquiries he attended. Could it be that the auditors, like so many others at all levels of government, were simply taken in by his charm and conviction?

## 2.5
## "Who Let the Dogs Out?" The Impact of Access to Information on Internal Audit

The central tenet of an internal audit is exactly that: It is "internal." These "snapshots" in time are meant to function, however adequately or inadequately, as a confidential tool of management for the use and instruction of those responsible. Over the past 20 years, however, this fundamental principle of internal audit has been overtaken by the desire for government to operate with greater openness and transparency. One manifestation of that philosophy was the 1983 *Access to Information Act* (ATIA), which offers anyone the opportunity to request copies of all government documents with the exception of those that contravene principles of Cabinet secrecy or personal privacy.

The "internal" aspect of internal audit has been caught up with this philosophical drive to openness to the extent that all working documents and reports produced are now available under ATIA. In the late 1990s, Treasury Board became even more proactive on this score and required that all departments post the summaries of their internal audit reports on departmental web sites or send them to Treasury Board for posting.

While such efforts towards transparency in government are laudable, the impact of such openness on "internal" audit has been significant, and the outcome for both departments and the public has not always

been entirely positive. There are several reasons for this, among them the technical nature of audits and, not surprisingly, the sensitivity of the information contained in these reports.

There is also the fact of what has been called the "expectations gap"[57] between what the public expects from an audit—the detection of fraud—and what audits actually deliver—an opinion on financial statements that appeals to the notion that the statements are "true and fair."[58] This gap is widened by the use of the term "audit" to include, in addition to financial audits, such exercises as performance audits, "value for money" audits, management audits, "systems under development" audits, compliance audits and environmental audits. As David Good points out, the vast majority of these have very little to do with public money,[59] but the distinction between them and financial audits are rarely recognized in the public forum.

The perception of audits as always dealing with matters of finance owes its origins to, and is reinforced by, the high profile of the annual Report to Parliament made by the Auditor General. Again, the distinction between the objectives of these external audits and those of an internal audit are not well-appreciated or understood. As David Good explains:

> The client for the internal audit is the department, including the managers and its deputy minister. The client for the external audit is Parliament and by extension the taxpayer. The head of the Internal Audit Bureau reports functionally to the Deputy Minister. The external auditor—the Auditor General—is an agent of Parliament and more specifically, of the Public Accounts Committee. He or she does not report to the Government. Internal audits are provided to departmental managers and are normally made available publicly in a low-key manner on request or placed on the department's web site. External audits are tabled quarterly in the House of Commons through the Speaker of the House in a high-profile

> manner…complete with an advance "lock-up" of the media. The Auditor General gives interviews to the media and his or her external audit is widely reported…. The internal audit sometimes undertakes "systems under development audits," which provide immediate and ongoing results to managers so that programs can be changed and adjusted as they are implemented. The external audit normally produces final audits that identify areas for improvement after the program has been implemented.[60]

There is, as demonstrated by the above explanation, a qualitative difference in the intent of the two processes. Internal audit is meant to provide managers with periodic snapshots of the day-to-day workings of the department. The external audit provides a final report card on how the department is functioning for the benefit of Parliament and the Canadian public. One is meant as a management tool, the other as a tool of parliamentary and public accountability. The difference, however, is technical and not readily grasped by the average citizen.

It would not be surprising to discover that, given the high and very public profile of the Auditor General's Report, departments, and especially Deputy Ministers, have a strong vested interest in ensuring that the Auditor General's findings are cast in the best possible light. To that end, lengthy, difficult, and detailed negotiations over facts and interpretations take place, often at the highest levels.[61] As former Auditor General Denis Desautels can attest, great pressure is regularly brought to bear on the auditors to modify and tone down the language of their reports when adverse findings come to light. The reason for such a tough stand is obvious: No department wants the Auditor General's report to be the cause of embarrassment to either their Minister or the Government. Mismanagement writ large across the national headlines is the nightmare of every Deputy Minister. Both their personal reputations and those of their political masters depend on a generally favourable assessment of the department's financial management. And so the negotiations are

forceful and substantial, with their outcome representing very high stakes for the departments involved.

Having said this, it must be noted that the ability of departments to influence the Auditor General's language, however forcefully it is applied, remains in the realm of persuasion. As an independent officer of Parliament, the Auditor General is under no obligation to negotiate the language of her Report with anyone. Deputy Ministers have no authority to demand or impose changes in the wording of an Auditor General's report. The sole impetus for the Auditor General's office to engage in such dialogue is to ensure that the Auditor General has, in fact, got it right, that the findings reflect a true and accurate state of affairs. It is a courtesy as well as a check against possible errors and oversights in the Auditor General's own auditing process. It is, however, a convention, not an obligation.

Prior to the enactment of the *Access to Information Act (ATIA)*, reports of internal audit were never made public. As internal and confidential documents, these findings were the business of no one other than the Deputy Minister and other senior and department managers. Negotiations between auditors and managers over language, scope and outcome were of importance only in the sense of ensuring their utility in addressing appropriate risk elements and detecting gaps and irregularities. Oversight of the internal audit process by central agencies, specifically the Comptroller General's Office or Treasury Board, has varied greatly over time, but even this measure of outside scrutiny remained under the Government's lid—a confidential matter between the department and the central agency.

When the ATIA opened the door to public disclosure of these internal reports, everything changed. The Government failed to anticipate the inability of the public to understand and distinguish between the various types of internal and external audits or how the media and opposition

might exploit this misunderstanding for their own professional or partisan purposes. At the same time, it should come as a revelation to no one, given human and bureaucratic nature, that the consequence of compelling departments to hang out their dirty laundry in public is more often than not a whitewash of the linens. Negotiations between managers and auditors on language and findings have been taken to a new level, with the added pressure of public disclosure of the results. Indeed, as evidence from the sponsorship audit indicates, this has had a self-censoring effect on the auditors themselves. The raw objective of internal audit as a candid tool of oversight has been placed at cross-purposes with the larger obligation of departments to protect themselves and their Minister from public criticism. In that contest, the management function is inevitably sacrificed. The result is now a tendency towards increased obfuscation in internal audit reports, if not the outright removal of any damning information. Reports are written in vague and unspecific terms that do little to distinguish real and substantial irregularity from the garden-variety type, and are therefore of questionable utility to the senior managers or to audit and review committees, the ultimate recipients.

It might also be argued that the unspoken obligation for departments to marshal the wording of their internal audits (at every stage of their development, given the complete access to all working documents allowed by ATIA) to prevent any self-inflicted wounds on the Minister or the department represents an inappropriate politicization of the function. It imposes on managers and auditors a role more appropriately performed by ministerial political staff, whose primary purpose is to assess and contain the political fallout of departmental statements and activity. The impact of ATIA on the integrity of the internal audit function is an issue that has to date remained completely below the radar of academic analysis. However, given the role it has played in the two largest political dust-ups of the 21st Century in Canada, it is one that is perhaps worthy of future attention.

## 2.6
## Exerting Control on Contract Auditors: A Case Study

For government departments to "hide" politically significant or damaging internal audit findings in the language of their summaries and reports is relatively easy, given that the writing of these documents is entirely within the control of the department. This process of "containment," whether it be inspired by normal auditor-management gamesmanship or by the perceived need to protect the department and Minister, is somewhat more delicate to manage when outside consulting firms or auditors are engaged to undertake internal audits.

One recent example involving a workplace safety audit for the National Capital Commission (NCC) provides an interesting insight into this phenomena:

> The $12,000 contract was handed to Safety Projects International Inc., of Kanata, and it involved about two weeks work of first-hand inspections.... He [consultant Bill Pomfret] produced a 32 page report, remarkable for its blunt language and embarrassing revelations. But the most shocking part was yet to come. The NCC immediately fired the "alarmist" report back at him, ordering him to soften the language and cleanse the report of personal opinion....[62]

The specialist, Bill Pomfret, acquiesced to his client's request and rewrote the report to try and accommodate the NCC's concerns. Still, on October 1, 2004, the NCC's health and safety advisor, Stéphane Trudeau, wrote Mr. Pomfret a memo expressing continued concerns about the tone of the report:

> After reviewing the document, although we appreciate your effort to soften some of the wording, we remain dissatisfied with the report.

> There is definitely a lack of contextualization which makes this report more alarmist than it should be.[63]

Mr. Trudeau then proceeded to give the consultant some direct advice, including "stick with the facts; hence we request that you remove all personal comments that are unnecessarily offending. . . ."[64] Examples of the report's "offending" commentary included statements such as, "The results of this very basic risk assessment demonstrate many aspects of the Commission's activities which have simply been mismanaged for decades."[65]

Obviously, this rhetoric was not what the manager responsible welcomed nor what the NCC wished to see floated in the public domain. While efforts to tone down the report might be ethically questionable in a closed-loop environment, such defensive action becomes far more acceptable and legitimized when the larger interests of the organization are at stake. What is interesting from a public administration perspective vis-à-vis internal audit is that the priority of pre-emptive damage control becomes a mechanism to legitimize all obfuscation. The ethics of fiddling with objective analysis become less rigid. The danger in this instance, as with any other report that has been subject to emasculation, is that this modified picture becomes the official version of the truth, and all weighing of the seriousness of infractions is obliterated. The senior managers and members of the audit and review committee who are the ultimate recipients of these reports, but who are not involved in the negotiation process, take from them the same message as anyone else—that, with the exception of a few minor irregularities, all is working well.

## 2.7
## Internal Audit: Lessons of the 2000 HRDC Scandal

If the HRDC "scandal" is any evidence, there is good reason for public servants to fear the potential rebound of the posting of internal audit reports. In an effort to pre-empt an expected barrage of access to information requests on the results of a compliance audit of a particularly complicated and politically sensitive "grants and contributions" program known as TAGS, senior managers in HRDC decided to hold a press conference to release the findings. This decision was consistent with the Government's emphasis on openness and transparency, but also reflected the political nature of the issue under investigation. Questions had been raised in the House of Commons, and the media had caught scent of a potential headline. The thought was that in being proactive with the release, HRDC would pre-empt any suspicions that the Department had anything to hide from what was, in essence, a review of documentation compliance.

As David Good's book, *The Politics of Public Management*, describes, the result was catastrophic. The penchant for the public and media to construe every audit as being an accounting of financial integrity resulted in the immediate interpretation of the results of this administrative review as gross financial mismanagement. Deficiencies in documentation revealed by the compliance audit were said to constitute a "billion dollar boondoggle," and the issue quickly spiralled into a full-blown political scandal for the Minister, the Honourable Jane Stewart, and her Department. As the author recalls:

> "One billion dollars lost." The expression, however distorted, was dramatic and the image vivid. A seemingly dull administrative audit was "recontextualized" into a newsworthy sound-bite and a catchy headline. In fact, no money was lost.[66]

For the ten months that followed, HRDC and the Liberals were pilloried by the Opposition, the media and the public. A report by the Auditor General finally quelled the attacks with some rather unremarkable findings that indicated a scant $85,000 of the $1 billion "lost" was unaccounted for, but by then that information was all but irrelevant, since the impression of gross financial mismanagement had been firmly planted in the minds of the public. This tempest in a teapot, largely fuelled by the huge gaps in public understanding of the multi-faceted nature of audits, was irrefutable proof of the political damage that could be wrought by the "expectations gap" and the exploitation of it by the media and Opposition:

> To most people, an audit is an audit is an audit. It is thought to deal directly with money. In the world of audit, there is a large array of different types of audits, most of which do not deal directly with money.... Given the complexity of these audits, it does not seem possible to distinguish between them in a manner that is understandable, even for those inside government let alone those on the outside.[67]

For HRDC, the affair quickly spiralled into a "When did you stop beating your wife?" scenario that no communications plan in the world could quell. Attempts by the Minister, the Honourable Jane Stewart, and Prime Minister Chrétien to explain the matter for what it really was went unheeded, as did departmental efforts to correct perceptions. As the former ADM explains:

> The media dismissed explanations and briefings by departmental officials as too complicated, confusing, and simply designed to support the Prime Minister. The Ottawa Citizen reported on a technical media briefing by two senior HRDC officials, claiming that they were dispatched by the Prime Minister's Office to clear up some of the "factual misunderstandings" and to back up Mr. Chrétien's interpretation of it.[68]

In his analysis of the affair, Mr. Good is particularly critical of the media, who he accuses of having a "preformed story line" into which they try to shoehorn the facts, with little regard for accuracy or truth. While some of their misinterpretations might be attributable to the same fundamental misunderstanding of audits exhibited by the general public, Mr. Good's impression is that their incendiary rhetoric is fuelled by less innocent motives.

Interestingly, in his "lessons learned" section, Mr. Good advises senior mangers to "know what underlies internal audits and challenge both their findings and their conclusions."[69] This approach is suggested as a way of ensuring that audit reports never appear in the public domain with any information that might be misconstrued or "recontextualized" in a way that would prove detrimental to the department or the Government. It seems to encourage, out of necessity, the crafting of audit reports that hold as their chief priority the protection of the department against public scrutiny. Implicit in its direction is the need to sanitize or eliminate any information or findings in the report which might reflect negatively on programs or operations. It does not, however, support the original and more legitimate task of internal audit to provide thorough and candid information to senior managers on the true state of their administration, financial or otherwise, and as such is emblematic of the degree of impact that public disclosure has had on this management function.

Ironically, the result of public access to internal audits has been to diminish their reliability and usefulness to managers without really offering the public an accurate window on government either. It is, as Denis Desautels points out, legitimate for Deputy Ministers to want to know first when there are problems within their department,[70] and legitimate that they be given an opportunity to address them in the regular course of departmental management without a great deal of public scrutiny and external fanfare. In a very real sense, ATIA has turned every internal

audit into an external accounting. The result is a bastardization of the role, with potentially dangerous consequences for both the Government and the public.

## 2.8
## What Have We Learned?

What have we learned from this exploration of the dynamics of internal audit in general and its role within the management of advertising and sponsorships at PWGSC in particular?

First, it is obvious that internal audit failed miserably in this instance in its ability to distinguish serious corruption and graft from run-of-the-mill administrative wrongdoing. While these failures could simply be explained by errors of judgment or questions of competence, it is also likely that they were influenced by the various manifestations and consequences of political interference. It is also possible that, in favouring Mr. Guité's version of events, the auditors and managers involved were responding to a core value of the public service that holds the defence of national unity to be the ultimate objective and a justification for some breaking of the rules. Somewhat more likely, but less noble, is that they simply recognized the extraordinary political nature of Mr. Guité's operations and stepped back out of deference.

There is also the possibility that the auditors were directed, implicitly or explicitly, to "step back" by senior management at the instruction of the Minister or the Prime Minister's Office. If so, this would represent an inappropriate incursion of the political and possibly the executive levels into the administration of a department and should not have been tolerated by the Deputy Minister.

Leaving aside the direct example of the Sponsorship Program, there are some important cultural aspects of internal audit which can, to varying degrees, impact on its reliability. These include the classification and status of auditors within the bureaucracy, the perception of that status

by the public servants they audit, their relationship with program managers, and the motivation and character of the people themselves who take up that role.

There are also questions about the methodologies used by audits—the rigour and accuracy of risk assessments, the appropriateness of the techniques used, the standards applied. What has been identified as "audit rhetoric" and the tendency for "mandate creep" can result in a pushback by managers that takes the form of negotiated findings. Perceived philosophical or personal bias on the part of auditors can on occasion result in a situation where the audit findings are no longer perceived by management as an objective or clinical accounting of facts.

Access to information legislation has significantly affected the internal audit function. What was intended to be internal and confidential is now a very public exercise that has forced Deputy Ministers to micromanage in a fishbowl environment. It has attributed to internal audit a status that carries with it potentially national political implications. The gap between what the public expects of audits—that is to say, an assessment of financial regularity—and what many audits actually deliver—a wide range of compliance and performance assessments—has been exploited by both the media and Opposition parties to elevate reported administrative wrongdoing into financial and political scandal. The result is that internal audit reports are now carefully crafted to remove any information that might prove embarrassing to the department, Minister or Government. This has to some degree "politicized" internal audit reporting and imposed an inappropriate duty on public servants to emasculate and sanitize findings, to the detriment of accurate internal reporting.

## 3 The Government's Response: Proposed Reforms to Internal Audit

On October 21, 2005, Treasury Board President, the Honourable Reg Alcock, introduced a comprehensive list of reforms to the public service designed to improve accountability and financial management within the Government of Canada. The focus of these reforms was aimed at "fixing" what the Government perceived as systemic failures in the mechanisms of oversight and accountability within government departments. These failures had allowed the irregularities of the Sponsorship and Advertising Programs to flourish undetected and, if unaddressed, could lead to similar episodes of malfeasance elsewhere within Government.

The main structural development in the Government's new policy portfolio is the re-establishment of the Office of the Comptroller General within Treasury Board Secretariat. Many of the principal tenets of the proposed policy on internal audit are therefore designed to accommodate this reconfigured model of central agency control, as well as to address the systemic weaknesses that are perceived to exist in the system as it now exists. The main elements of the new policy[71] are summarized as follows:

- The Deputy Minister is responsible for the establishment of an internal audit function that is appropriately resourced and operates in accordance with professional internal audit standards;

- The position of Chief Audit Executive will be established at a senior executive level to lead and direct the internal audit function within departments; this individual will be appointed by the Deputy Minister but is mandated, after discussion with the Deputy, to inform the Comptroller General, without delay, of any risk, control or management practice that may be of significance to Government and/or require Treasury Board's involvement;

- The departmental audit committees will be reconfigured to include a majority of external members from outside the public service, with the remainder coming from outside of the department; the Comptroller General will determine the competency profile for these external members, and appointments will be made jointly with the Deputy Minister; the Deputy Minister may serve as chair or *ex officio* on the committee;

- The audit committee is to meet annually, *in camera*, with the Minister to provide assurances regarding risk management, control, and audit systems;

- The Office of the Comptroller General will conduct horizontal audits in areas considered to be of high risk, in particular, areas such as contracting and human resources;

- Beginning in 2006, the Office of the Comptroller General will conduct focused internal audits of more than 40 small departments and agencies (SDAs);

- Consulting and Audit Canada has been disbanded and the two services separated; the consulting service will be amalgamated with PWGSC while the best use of the audit services is to be determined by PWGSC and the Comptroller General's Office;

- Deputy Ministers will be responsible for the following: the independence, professionalism, timeliness and performance of the internal audit function as well as its success in addressing high risk areas; the performance of the audit committees; support to the Comptroller General in carrying out horizontal or direct audits; approval of the annual audit plan; and the effectiveness of any follow-up action plans that might arise out of the audit process;

- The consequence to Deputy Ministers or other public servants for lack of compliance with the new internal audit policy will be sanctions as set out in the *Financial Administration Act*.

There is no question that some direct and concerted remedial action by Government would be expected and in fact, required, in response to an incident of the magnitude of the sponsorship scandal. Audit failure did occur and, as such, is an appropriate target for reform. It is, however, important in analyzing the Government's response to recall that, as observations made earlier in this study indicate, these audit failures were primarily due to issues of political interference, obfuscation in audit information, accountability and competence.

It is also evident from the thrust of these measures that Treasury Board is attempting to bring the Government's audit regime into line with private sector practices and the standards currently prevalent in the international audit community. This presumes a culture and management structure in the public service that will readily accept and accommodate such direct transposition of this private sector model, as well as recognition by those affected that these measures are necessary, warranted and an improvement on existing practice.

## 3.1
## Premises and Motivations

While a thorough analysis of the complex motivations and influences that underlie the Government's managerial reforms is well beyond the scope of this paper, it appears evident that the current administration is operating under several basic and, some would suggest, faulty premises.

The first assumption suggested by the range of these reforms is that the sponsorship and advertising irregularities were primarily attributable to a lack or failure of bureaucratic control and oversight and that, by extension, the imposition of more stringent, extensive and centrally-controlled surveillance mechanisms will prevent any future occurrence of this sort. While weaknesses in the audit and oversight system were exposed through this incident, the major conclusion arrived at by both

the Auditor General and Justice Gomery, and supported by the findings of this study, was that sufficient and appropriate rules, policies and oversight mechanisms did exist, but that these safeguards were removed, abrogated or ignored as a direct result of political influence and interference. As Mr. Cutler himself explained:

> [T]he checks and balances that were in place were sufficient. What happened was they removed them—when they created Mr. Guité's unit, when I was moved to it—they removed all the checks and balances that had been in place and had been a very adequate set that had worked for years.[72]

That the public service cowered and retreated in the face of this political incursion into program administration is the critical issue ignored in the equation of these reforms. This culture of bureaucratic timidity is unlikely to be removed by the institution of a more oppressive and pervasive scheme of regulatory governance. In that sense, the efforts in this policy to reinforce the role of Ministers and central agencies as omnipotent forces within the machinery of government is wholly unlikely to encourage the greater resilience and fortitude in Deputy Ministers and bureaucrats necessary to push back or hold strong in the face of inappropriate political interference. Indeed, it may well succeed in having just the opposite effect.

Second, there is a strong indication that the Government perceives Ministers, and not their Deputies, as the primary managers of federal departments.[73] Such an assumption would represent a departure from the convention that is currently reflected in the machinery of government. Both the Glassco and Lambert Commissions, when examining this question, came to the conclusion that it should be, and in fact is, the Deputy Ministers, not their political masters, who are the key administrators of government business. Further support of that understanding is enshrined in the *Financial Administration Act*, which clearly

indicates the areas of departmental administration for which deputy heads are legally responsible in their own right. That these statutory accountabilities exist and are legally entrenched must be consistently and responsibly supported by the machinery of government and endorsed in both spirit and practice through government policy on matters of departmental oversight, control and responsibility. While the sponsorship scandal revealed problems with the current definition and understanding of both ministerial and deputy ministerial accountability, in that neither one nor the other accepted blame for the outcome, the shift of reporting authorities and controls away from the Deputy Minister and towards Ministers, central agencies or external appointees, as suggested by some of the proposed reforms, might in practice serve to further discourage the clarity of accountability which this Inquiry so clearly has demonstrated to be currently lacking in Canadian governance.

Third, these proposals reinforce a growing and fundamental confusion between the intended roles of internal and external audit. Internal audit, as indicated previously in this paper, is meant as a management tool to provide Deputy Ministers, as chief administrators, with regular, ongoing and confidential intelligence on the workings of their departments. It is a system of containment in the best sense of the word, built on the premise that given appropriate indication of non-compliance or irregularity, Deputy Ministers will "do the right thing" and act in a timely and responsible way to redress any administrative weaknesses or malfeasance. Assurances to Ministers by Deputy Ministers are currently made on a regular and/or as needed basis without involving the political level in the minutiae of program administration. External audit, on the other hand, has a different objective and constituency. It is performed on a cyclical basis by auditors from outside the department, is externally scoped and driven, and responds to an assessment of risk as determined by central agencies outside the department, most notably the Auditor

General. External audits provide the greatest degree of objectivity and independence of any audit process, enabling reliable assurances of the regularity and probity of government operations for the benefit of both Parliament and the Canadian public.

The proposed reforms, with their increased involvement of central agencies, external membership on audit committees, and "horizontal" internal audits conducted under the auspices of Treasury Board, all appear designed to hybridize the internal audit function and have it provide assurances normally provided by external audit. The Government makes no apologies for the bastardization of this function given that this protocol reflects the best practices of the corporate sector, including Crown Corporations.

The veracity of these assumptions—that the bureaucracy suffers from a dearth of oversight, that Ministers, not their Deputies, are the principal managers of departments and that internal audit should provide external assurance—is further supported by Treasury Board's apparent return to its former philosophy of "command and control." This reversion represents a violent swing of the pendulum back from the "steer, not row" and "let managers manage" approach that has prevailed for the past decade and that was intended to make government more flexible, efficient and responsive in its delivery of programs and services to Canadians. The reintroduction of the previously failed institution of the Office of the Comptroller General and the creation of a cadre of operatives in the form of Chief Audit Executives who will be appointed by Deputy Ministers but answerable to Treasury Board, could further muddy the waters of direct accountability. Split loyalty never being recognized as an attribute in any departmental employee, those familiar with the vagaries of dual reporting authority argue that Deputy Ministers will no longer be assured that their main executives are now in fact on the same page as the department. A cry of "let the games begin" might be heard resounding throughout government in anticipation of the

intrigues and folly that will arise as a result of the attempts by these chief auditors to dance simultaneously to the beats of two different drummers.

## 3.2
## Reconstitution of the Audit Committees

The restructuring of the Audit Review Committee is perhaps the most significant change being proposed to the current audit regime. One aspect of its intent, as previously mentioned, is to bring government practices more in line with those of the private sector. There is, however, another motivation. Some believe there is pervasive evidence that Deputy Ministers currently fail to fully understand or appropriately manage the function of internal audit. It is felt that they are obsessed with the suppression of bad news to the detriment of effective audit assessment, that they can be obstructionist with regard to the target of audits and that they lack the independence, objectivity and necessary expertise to serve on audit committees or provide reliable assurances to their Ministers. The general lack of professional accreditation currently found among the heads of audit appointed by the Deputy Ministers is seen as evidence of their failure to appreciate the importance of the function and their desire to diminish its effectiveness within their departments. The capacity of Deputy Ministers with regard to internal audit likely spans a continuum across government, but given even a bell curve breakdown of this assessment, it might seem to some folly for government to leave the responsibility for audit review and oversight in the hands of these managers.

At present, that is largely the case. Audit review committees, with few exceptions, are composed of senior managers and chaired by the Deputy Minister. Their mandate is to review, discuss and accept the final audit reports and action plans that are the outcome of the internal audit function. Deputy Ministers hold sole authority in the appointment of their heads of audit. As a management tool designed for the use and

benefit of these senior administrators, it could be argued that the reporting structure as it now exists is logical, if slightly incestuous. Perhaps in response to this lack of objectivity, in recent years some Deputy Ministers have reached beyond the upper floors of their own departments and invited one or two external members to join their review committee. There are unquestionably advantages to be gained from the contributions of these outside members in that they bring fresh eyes, diverse expertise and an objective perspective to the review of departmental findings. Their participation represents "value added" to the committee and can ensure a more independent and robust review of audit findings. Several Deputy Ministers who have implemented this structure are pleased with the benefits of this outside perspective.[74]

In proposing its reform of the audit committee process, Treasury Board has gone well beyond the motivation and efforts initiated by the Deputy Ministers in this direction and recommended that the audit committees be made up exclusively of external members. The policy describes as the intent of this move an effort to make the committee "much more independent from the management of the organizations they review."[75] To that end, Treasury Board asserts that, "When the new policy is fully implemented, all audit committees will have a majority of members coming from outside the public service, with the remainder coming from other departments."[76] The policy statement goes on to indicate that the Deputy Minister may chair the Committee or be an *ex officio* member, but provides no requirement for any members of senior management to be present. Further, Treasury Board will establish "competency profiles"[77] for these external members and select them "jointly with the deputy minister."[78]

Proponents of this external membership approach argue that rather than removing the committee from the Deputy Minister's purview, this new structure will ensure that the audit review is handled by individuals with more appropriate expertise and who are better able, by virtue of

their objectivity and independence, to ask the tough questions of the auditors and ferret out the truth behind obfuscated reporting. It is thought this restructuring of the committee will liberate the Deputy Minister and senior managers from a task that can be better handled by those with more targeted expertise in audit matters and yet still provide them with the necessary information and assurances they require regarding the operations of their department.

At the same time, should the external members detect ineptitude in the management of the Deputy Minister or identify an instance of wrongdoing that might have significant or government-wide implications, the Government feels these outside members will be well placed to advise Treasury Board or the Minister of their concerns. As such, those in favour of this structure suggest that this will provide government with greater confidence in the integrity of the audit system governing departmental regularity. The imposition of external agents between the Deputy Minister and central agencies or Ministers is felt by some mandarins to offend the conventions governing those relationships. The private sector has adapted over time; Treasury Board sees no reason why government cannot reap the extra benefits of this hybrid internal/external audit system and is confident that the Deputy Ministers will understand and get in line with Treasury Board's way of thought.

Can the mechanics of government oversight be shoehorned into this private sector model? Critics argue that the unique nature of government and the culture in which it operates will make it a difficult fit. Some practical issues arise. Given the number of government departments, upwards of 300 audit committee "experts" will need to be identified and hired. Some suggest that it will be extremely difficult to find competent, willing and available individuals from outside the public sector who will not in some way be in conflict when sitting on the audit committees of Departments such as Industry, PWGSC or Finance. Further, there is the issue of patronage. It would stand to reason that

the Government will want to recruit individuals to these positions who would be sympathetic to the party in power. However, in so doing, these committees run the risk of becoming politicized. External audit membership could well wander down the path of so many other public appointments and become just one more trough at which the party faithful feed.

The proposed reform policy dictates that the audit committee meet annually with the Minister *in camera* without the Deputy Minister present.[79] Again, this reflects the current practice in many private sector corporations that is designed to give corporate boards an independent assurance that their chief executives are complying with policies and regulations and adhering to appropriate financial management practices. In government, this would represent a sea change in the tenor of the relationship that has existed between Deputy Ministers and Ministers. Traditionally, it has been the Office of the Auditor General and, to some degree, Treasury Board that have served as watchdogs and provided Ministers with external audit assurances.

While having private citizens provide assurances to Ministers on the performance of government departments is indeed a departure from common practice, it is the inclusion of public service members from another department on these external audit committees that may prove to be the most delicate part of this innovation. No doubt this requirement was included as insurance that at least one person on the audit committee would understand the operations of government. However, it does raise the very odd spectre of a Deputy Minister from one department providing assurances to a Minister other than his own. The "snitch" factor that is the subtext of the prescribed annual audit committee meeting with the Minister makes the participation of these departmental officials a potentially demeaning experience for both Deputy Ministers involved, and at a personal level could lead to no end of resentments, ill will and conflict within the Deputy Minister community.

There is also the issue of accountability. It is evident that one of the aims of this policy is to reinforce the concept of "Minister as manager" and clarify his or her responsibility and accountability for the proper administration of his or her department. There is also a presumption evident through this change in the role of the Deputy Minister with regard to the audit committee that the current system has failed to provide Ministers with appropriate assurances. The question must be asked, however, that if the failure of the Deputy Minister to recognize the seriousness of the sponsorship irregularities (and therefore his failure to inform his Minister or Treasury Board of these issues) lay with the quality of the information he was receiving, what guarantee is there that a committee comprised of external members, given the same information, might not likewise come to a similar conclusion? And if important information such as this is missed, or as in the case with the Sponsorship Program, assurances are given which in the end prove to be false, what liability or accountability will these external members bear as the ones responsible to assess and provide that information? Both the Deputy Minister and the Minister can blame this external body for not having properly informed them, and if past practice is any indication, they can use this failure to refuse any responsibility. Thus, the lines of "blameability" and "accountability" are further muddied, but in this case those "responsible" are now either outside the department or outside the Government. The assumption is, of course, that the external committees, with their more astute perceptions, objectivity and audit expertise, would never let this happen. However, if it does happen, would this committee not provide yet another ready scapegoat?

## 3.3
### Will More be Better?

The re-establishment of the Office of the Comptroller General signals an era of greater central agency involvement in the oversight of government departments and, inevitably, an increase in the number of

audits required. According to the new internal audit policy, the spectre of "horizontal audits" will now complement the ongoing roster of 20 to 30 cyclical internal audits currently being conducted in departments such as PWGSC. Add to that the financial and performance audits currently being undertaken by the Auditor General, and one can rightfully conclude that this administration is among the chief proponents of an "audit society."

Based on the dubious audit history of the Sponsorship Program, there is no question that a certain degree of improvement in the quality of internal audit, its professionalism, the competence of its personnel, the integrity of its reporting, and the capacity of audit committees to properly decode the messages being sent are all required. Presumably, the extra resources, expertise, guidelines and structure that will emanate from the Comptroller General's Office will assist in closing the gap between the ideal of what an internal audit should be and accomplish, and the sometimes less-than-optimal results that are now being realized. To that extent, any of the initiatives designed to support an improvement in the quality of internal audit should be enthusiastically embraced and universally welcomed.

At the same time, it must be acknowledged that audits are stressful, and that they demand time, energy and resources from departments and individuals already labouring hard to accomplish the real work of public administration—that being the achievement of the objectives of the elected government by means of the prudent stewardship of public resources. Given the frailties of human nature and, on occasion, the outright corruption of individuals, it is understood that there must be some time and effort dedicated to accounting. However, when the balance of "doers" to "checkers" gets too strongly tilted in favour of the latter, the oversight becomes oppressive and the corresponding impact on the morale and self-esteem of public servants can be significant. It is in no government's best interest to create so much tension among

its employees—between the pressure on them to perform and the pressure on them to account for that performance—that they lose all latitude for creativity, innovation or common sense. The more you look, the more you will find. In imposing the additional horizontal audits on managers as prescribed by this new policy, the Office of the Comptroller General walks a fine line between uncovering significant irregularities or corruption and inadvertently undermining the morale and self-confidence of employees as a result of too much time spent under the microscope.

## 3.4
## Some Final Thoughts on the Proposed Reforms

Assessed against the issues that this study has identified as being central to the failure of the audit process in the Sponsorship Program, it seems apparent that the reforms fail to address one of the most salient issues that led to that failure, that being the impact of access to information on the quality of audit reporting. Remove the pressure on Deputy Ministers to operate in the fishbowl environment created by access to information legislation and, therefore, the need to protect their departments and Ministers from the possible backlash stemming from public access to negative audit reports, and the major incentive to obfuscate and water down reports disappears. Significant redress to one of the main institutional impediments to auditing could be made by amending the *Access to Information Act* to remove all working papers and, ideally, reports, of internal audit from the reach of the Act. The desire for openness and transparency should not be allowed to corrupt the integrity of the audit process itself, and could well be satisfied by the publication of summaries of reports.

Second, these reforms fail to address the very critical issue of the classification of auditors within departments. The observations of this study indicate that in general it is quality and professionalism that is

currently most lacking in auditors. Appointing accredited heads of audit as recommended by this policy will be a step in the right direction, but the benefit of this improvement might well be lost if the calibre of individuals reporting to the head remains at a clerical level—that is, if the Government has not gone far enough in its efforts to professionalize this function.

Third, it is far from certain that the subtext of distrust of bureaucracy that is reflected in the thrust of this new policy will create the type of robust, self-confident public service required to stand up to the pressure of political interference in the future. The emphasis on enhancing the power and reach of central agencies, the lack of respect for Deputy Ministers as chief administrators of their departments, and the emphasis on the pre-eminence of Ministers are all signals to public servants that direction should be taken from above, and will do little to alter the culture of deference to the political and executive levels that we witnessed during this sponsorship scandal. Nor is it likely to prevent a similar reaction the next time the political level exerts its reach below stairs. In tarring the many for the transgressions of a few, in failing to establish strong and effective legislation to protect whistleblowers or to heavily sanction those public servants who were guilty of stepping back, the Government and Parliament have failed to create the appropriate environment to encourage public servants to ask the tough questions.

The sponsorship scandal was the result of the wrongdoing of a small group of isolated individuals working off-grid in a clandestine operation directed by the Prime Minister's Office. It was not reflective of regular government activity, ethics or operations. Yet like a class kept in for recess for the misbehaviour of a few, the public service is feeling unfairly blamed and censored for actions that were fundamentally beyond its control. Worse still, it appears from this perspective that it is those most directly culpable who are now pointing fingers, and it is the fundamental injustice of this situation that will likely taint the acceptance of even the

most reasonable and necessary attempts to improve the function of internal audit. As former Deputy Minister Arthur Kroeger points out:

> What you've got at the moment is a reaction to the activities of 14 officials who were segregated [as an excuse] to impose widespread additional management requirements on 200,000 public servants across the country.[80]

Others interviewed argue that the result of the Government's heavy-handed response to this idiosyncratic occurrence that was, fundamentally, not of the bureaucracy's making will succeed in nothing more than mummifying the public service in red tape, imposing extraordinary inefficiencies as these new systems are learned, implemented and accommodated within an already overburdened bureaucracy, and building a level of bitterness and resentment that will further poison the already demoralized atmosphere of today's public service. Proponents are equally convinced that this model will set the public service on the path of greater professionalism and accountability and that, properly implemented, this model will allow the Government to sleep nights knowing that another sponsorship scandal will never again be allowed to flourish undetected. Time, no doubt, will be the final arbiter in that debate, but the question of what role internal audit played in the overall drama of the sponsorship scandal returns us, finally, to the central plot of this paper.

## 4 The Nail in the Shoe—Conclusions

Was a lack of attention and rigour in internal audit the "nail" that might one day lead to the loss of the Government in power, if not the "kingdom" itself, through a future referendum? In the light of pure audit theory, the answer to that question would be "Yes." A thorough investigation by internal audit of the risks posed by the early evidence of financial irregularity in advertising contracts might well have arrested the sponsorship scandal in its tracks. Those responsible, if not detected,

might well have been frightened off by the spectre of rigorous and ongoing scrutiny, and the nefarious arrangements that escalated over time might never have occurred. The return of the procurement function of APORS to the mainstream of PWGSC would have restored the institutional checks and balances that first led Mr. Cutler and his superiors to question Mr. Guité's actions back in 1994, and would have triggered concerns through a different line of reporting authority had these irregularities continued. The system would have worked.

But would it have worked? The answer to this question is likely "No." Internal audit, in the face of concerted and ongoing political interference in the regular systems of public administration, was only one of the many institutional smoke alarms that failed to sound in the face of so much political fire. As the principal warning system for the detection of wrongdoing, it perhaps holds a greater responsibility than most for having failed in this capacity, but it was not immune to the larger pressures that were being brought to bear at PWGSC with regard to the workings of this clandestine operation under Mr. Guité's authority.

This of course speaks to the objectivity of internal audit within the departmental system. Would a Chief Audit Executive, with perhaps greater loyalties to Treasury Board than the Department, have been immune from this level of political interference? The answer is likely "No." In the face of prime ministerial priority and the potential breakup of the country, even the central agencies might well have assumed a crouch and done their master's bidding. It was not that the irregularities of this program were unknown. A former Deputy Minister stated that by the late 1990s the Deputy Minister community knew that there was something not quite right happening within the sanctum of PWGSC.[81] It was ultimately the responsibility of the Deputy Minister to recognize the impropriety of what was occurring, to object and, if his protests fell on deaf ears, to resign. He took no such action. At the time, he saw no such need.

In the context of these loftier accountabilities, internal audit was but a bit player. That this function could have played a role in arming the Deputy Minister with the facts and evidence regarding the depth of corruption, and that it failed in that critical duty, is not to be dismissed. Information is power and, as such, the information disclosed through internal audit plays a significant role in the political system. As this saga surely demonstrates, even small, seemingly insignificant manipulations of information can have profound and pervasive implications. Like the story of how the death of one monarch butterfly in Mexico can change the course of world events, so too can the smallest detail of an internal audit unleash cataclysmic national and political repercussions. It is the lesson taught to our youth in the nursery: the important consequences of seemingly insignificant actions. But for the want of a nail....

# Endnotes

[1] Treasury Board of Canada Secretariat, *Policy on Internal Audit*, October 21, 2005.

[2] Commission of Inquiry into the Sponsorship Program & Advertising Activities, *Who is Responsible? Fact Finding Report*, November 1, 2005, Chapter VII, "Audits and Investigations," pp. 197-219.

[3] Office of the Auditor General, *Report of the Auditor General to the House of Commons*, November 2003, Overall Main Points, p. 1.

[4] Testimony of Norman Steinberg to the Commission of Inquiry into the Sponsorship Program and Advertising Activities, October 4, 2004, Volume 16, p. 2493 (OE).

[5] The audit branch of PWGSC was named the "Audit and Evaluation Branch (AEB)" up until 1996, the Audit and Review Branch (ARB) between 1996 and 2002 and the Audit and Ethics Branch (AEB) after 2002. To avoid confusion, the term "Audit and Review Branch (ARB)" has been used throughout this paper.

[6] Testimony of Norman Steinberg to the Commission of Inquiry into the Sponsorship Program and Advertising Activities, October 4, 2004, Volume 16, pp. 2492-2493.

[7] Testimony of Allan Cutler to the House of Commons Standing Committee on Public Accounts, March 11, 2003, 9:1020.

[8] Notes of Julie Ginley quoted by Mr. Finkelstein before the Commission of Inquiry into the Sponsorship Program and Advertising Activities, October 4, 2004, Volume 16, p. 2501 (OE).

[9] Ibid., p. 2499.

[10] Testimony of Norman Steinberg to the Commission of Inquiry into the Sponsorship Program and Advertising Activities, October 4, 2004, Volume 16, p. 2494 (OE).

[11] Ibid., p. 2497.

[12] Ibid.

[13] Testimony of Allan Cutler to the House of Commons Standing Committee on Public Accounts, March 11, 2003, 9:1020.

[14] Brian R. O'Neal, "A Summary of Evidence related to Chapter 3 (The Sponsorship Program), Chapter 4 (Advertising Activities), and Chapter 5 (Management of Public Opinion Research) of the November 2003 Report of the Auditor General for Canada for the Period up to 2 April 2004," April 15, 2004, Parliamentary Research Branch, Library of Parliament, p. 8.

[15] Ibid.

[16] Testimony of Allan Cutler to the Commission of Inquiry into the Sponsorship Program and Advertising Activities, September, 28, 2004, Volume 13, p. 2134 (OE).

[17] Ibid., p. 2135 (OE).

[18] Brian O'Neal, p. 8.

[19] Testimony of Norman Steinberg to the Commission of Inquiry into the Sponsorship Program and Advertising Activities, October 4, 2004, Volume 16, p. 2485 (OE).

[20] Ibid.

[21] Public Works and Government Services Canada, Memorandum to Mr. Jim Stobbe from Norman Steinberg, Head of Audit and Review Branch, PWGSC, File no. 1530-96-056-11/5, 19 June, 1996.

[22] Ibid.

[23] First draft of Ernst & Young audit report quoted by Mr. Finkelstein before the Commission of Inquiry into the Sponsorship Program and Advertising Activities, September 29, 2005, Volume 14, p. 2261 (OE).

[24] Ibid., p. 2250.

[25] Ibid., pp. 2252-53.

[26] Final Report of the Ernst & Young audit, quoted by Mr. Finkelstein, ibid., p. 2269.

[27] Ibid., p. 2281.

[28] Testimony of Ranald Quail to the Commission of Inquiry into the Sponsorship Program and Advertising Activities, November 24, 2004, Volume 39, p. 6773 (OE).

[29] Ibid., p. 6771.

[30] Testimony of Norman Steinberg to the Commission of Inquiry into the Sponsorship Program and Advertising Activities, October 4, 2004, Volume 16, pp. 2557-2558 (OE).

[31] Justice Gomery in ibid., pp. 2619-2620.

[32] Testimony of Norman Steinberg in ibid., p. 2621.

[33] Ibid., p. 2620.

[34] Brian O'Neal, p. 11.

[35] Treasury Board document #824628, November 21, 1996, in Brian O'Neal, p. 12.

[36] Brian O'Neal, p. 22.

[37] Ibid., p. 22.

[38] Ibid., p. 23.

[39] Ibid.

[40] Conversation with Denis Desautels, Ottawa, October 20, 2005.

[41] Testimony of Alfonso Gagliano to the Commission of Inquiry into the Sponsorship Program and Advertising Activities, February 3, 2005, Volume 69, p. 11969 (E).

[42] Brian O'Neal, p. 33.

[43] For a complete discussion of this theory, please see Denis Saint-Martin, "L'Affaire Groupaction: un cas de politisation de la Fonction publique fédérale?" Canadian Public Administration, Volume 46, No. 4, pp. 450-470.

[44] Ibid., p. 461.

[45] Ibid., p. 460.

[46] Daniel Leblanc, "Bureaucrat in ad furor stonewalls," *Globe & Mail*, July 10, 2002, translation in David Good, *The Politics of Public Management: The HRDC Audit of Grants and Contributions* (University of Toronto Press, 2003), p. 461.

[47] Conversation with retired Deputy Minister, November 9, 2005.

[48] Testimony of Ranald Quail to the Commission of Inquiry into the Sponsorship Program and Advertising Activities, November 25, 2004, Volume 40, pp. 6883-6884 (OE).

[49] Testimony of Brian MacAdam to the House of Commons Standing Committee on Public Accounts, February 3, 2005.

[50] Conversation with Senior Assistant Deputy Minister, November 12, 2005, Ottawa.

[51] Ibid.

[52] David Good, p. 52.

[53] Ibid., p. 193.

[54] Ibid., p. 192.

[55] Conversation with an Assistant Deputy Minister, November 12, 2005, Ottawa.

[56] Testimony of Brian MacAdam, House of Commons Standing Committee on Public Accounts, February 3, 2005.

[57] Term coined by Michael Powers and quoted in David Good, p. 191.

[58] David Good, p. 191.

[59] Ibid., p. 192.

[60] Ibid., p. 54.

[61] Ibid., p. 53.

[62] Kelly Egan, "How the NCC tried to hide a shocking safety report: Expert ordered to tone down 'alarmist' study," *Ottawa Citizen*, October 26, 2005, pp. 1-2.

[63] Ibid., p. 2.

[64] Ibid.

[65] Ibid.

[66] David Good, p. 64.

[67] Ibid., p. 193.

[68] Ibid., p. 69.

[69] Ibid., p. 211.

[70] Conversation with Denis Desautels.

[71] Treasury Board Secretariat, "Policy on Internal Audit," October 25, 2005, at www.tbs-sct.gc.ca/pubs_pol/ia-vi/ia-vi03_e.asp.

[72] CBC Ottawa radio interview, "Public servants react to Alcock announcement," Radio Morning, October 26, 2005.

[73] Reg Alcock, President of the Treasury Board, Standing Senate Committee on National Finance. Evidence, 16 November 2005.

[74] Conversations with Denis Desautels and several ADMs.

[75] Treasury Board Secretariat, "Government Reinforces Integrity of Audit Oversight," October 21, 2005, at www.tbs-sct.gc.ca/media/nr-cp/2005/1021_e.asp, p.1.

[76] Ibid.

[77] Treasury Board Secretariat, "Management in the Government of Canada: A Commitment to Continuous Improvement," at www.tbs-sct.gc.ca/spsm.rgsp/cci-acg/cci-acg03_e.asp, p. 8.

[78] Ibid.

[79] Ibid.

[80] CBC Ottawa Radio interview, "Public servants react to Alcock announcement," Radio Morning, October 26, 2005.

[81] Conversation with former Deputy Minister, Ottawa, November 12, 2005.