

# Different Jurisdictions, Different Roles: Auditors and Lawyers in the Canadian Federal Government Sponsorship Scandal

Vaughan S. Radcliffe  
Associate Professor, MBA '82 Faculty Fellow  
Richard Ivey School of Business  
University of Western Ontario  
London, ON Canada (519) 661 4170  
[vradcliffe@ivey.uwo.ca](mailto:vradcliffe@ivey.uwo.ca)

## **Extended Abstract / Overview of Project**

This project examines the differing roles of auditors and lawyers amid government financial scandal, and focuses on the various roles of these professionals in discovering, investigating and coming to findings of causality and prevention.

The case at issue is what has come to be known as the 'Sponsorship Scandal' concerning the Federal Government of Canada. This arose from what was known as the Federal Government's Sponsorship program, which through a variety of means including advertising and 'sponsorship' (grants) to public events sought to raise the profile of the Federal Government of Canada in the Province of Quebec. It was hoped that this activity would form positive impressions of the Federal Government's role and so counter then rising for Quebec separation.

The program was run through extraordinary means under the direct control of the Prime Minister's Office. It failed to follow the Financial Administration Act, the law governing government financial administration, and large sums of money were disbursed without appropriate authority, control or results. Of some \$250m Cdn., it was subsequently found that some \$100 had been paid to Quebec advertising firms as commissions, much of this for little or no demonstrable work. Internal auditing first discovered irregularities in this program, media coverage brought an audit by the Auditor General of Canada, and this audit resulted in the politically devastating finding that the program was both ineffective and beset by fraud. Speaking of the results of her review, Ms. Sheila Fraser, Auditor General of Canada, described the program as having "broken every rule in the book."

Largely as a result of these findings support for sovereigntist political forces at the Federal and Provincial government levels rose to record levels, effectively salvaging a movement that had lost support after the rejection of separation in a 1995 referendum. Subsequent to this audit a newly appointed Prime Minister established a Royal Commission, an independent judicial inquiry into matters surrounding the sponsorship inquiry led by Justice John Gomery. The findings of this inquiry confirmed extensive

fraud, including fraudulent invoices, conducted by advertising executives and other parties with connections to the then governing Liberal Party of Canada.

The paper examines the movement of the Sponsorship scandal through what Abbott (1988) calls the professional jurisdiction, what might be termed a sphere of competence, of first auditors and then lawyers, as the matter was the subject first of audits and then of lawyers under the auspices of the Gomery inquiry. The paper uses this case to explore the bounds of accountants and auditors roles in the public sector, and looks to compare and contrast these roles with those of lawyers. In essence the question focuses on what key stakeholders viewed as the appropriate professional jurisdiction of auditors and of lawyers and what was seen as inappropriate or beyond their proper scope of practice. In so doing it seeks to learn more of the publicly accepted sense of what these professions are capable of, and so demarcate current public and political expectations of the auditing and legal professions in the public sector. The case suggests that public expectations of the role of auditors in particular have risen substantially in the public sector, as they have in the private sector in the wake of recent financial scandals (Enron, WorldCom, etc.) and related regulatory reform.

The case offers analytic power in examining these issues because of the transfer of the matter from auditing to law. It speaks to matters of substantial public interest given that this scandal was largely responsible for the fall of the Martin government in December, 2005, and cast Canadian Federal politics into disarray. Because of the intense public interest in these matters the case offers a rare case in which substantial public comment, from an array of participants, was made on the roles of auditors and lawyers. For example, some politicians questioned the language used by the Auditor General of Canada, feeling that this was inappropriately strong and judgmental in the context of a program that consumed mere basis points of the Federal Government of Canada's expenditures, and conveyed an impression that government administration as a whole was wracked with fraudulent behavior.

The paper argues that in the public mind the professional jurisdiction of auditors and lawyers is shaped by events and observations drawn from both the public and private sectors. It is argued that both areas of practice serve to shape a mutually reinforcing social construction of each profession's perceived roles and responsibilities. While auditors are associated with discovery and investigation of issues of management, lawyers are turned to for diagnosis of causality and responsibility, and the perceived impartiality of law was particularly valuable in managing a case fraught with political tension. The paper concludes with discussion of limitations of the study and consideration of the role of professional jurisdiction in directing the future roles of auditors in practice.