

ESTABLISHING CONTROLS IN EMERGING GOVERNMENTS

Attitudes, competencies, controls and consequences of fraud and error in emerging governments that lack the philosophical history of public trust and the capacity to implement solutions in the short term – a medium term strategy.

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Executive Summary

On April 1, 1999, the territory of Nunavut was created after more than twenty years of negotiations. The agreement to create Nunavut would become the largest land claim settlement in Canadian history as the Inuit of the western Arctic chose to pursue self-determination through a public government structure. This government would represent all people of Nunavut – Inuit and non-Inuit alike.

The socio-economic environment in Nunavut in 1999 presented major challenges to the architects of the new territory. The economy of Nunavut was relatively undeveloped with many Inuit relying on their traditional economy of hunting, trapping, gathering and fishing. A lack of physical infrastructure negatively impacted the economic development of the region. Communities were isolated and lacked communication and transportation systems. Low levels of education, marketable employment skills and few employment opportunities led to low average earnings among Inuit. The economic conditions in Nunavut contributed to social problems including high rates of suicide, family violence and substance abuse.

The structure, organization and principles on which the new Government of Nunavut was founded were designed to deal with the socio-economic problems that existed in most communities. It was hoped that government spending and employment would improve Inuit standard of living and promote community and self-reliance. To achieve this, the organizational structure of the government would reflect two key elements – community government and decentralization. Strong community governments would be created by delegating decision making and financial management authority to

the community level. In addition, Inuit tradition and knowledge was to be incorporated in decision making and economic development.

The initial structure of the Government of Nunavut was decentralized to the communities as planned. When deciding on which departments/offices to place where, the number of communities, the population of the communities, the desire to promote efficient operations, and the need to respect Inuit culture were taken into consideration. The capacity and skill levels of local residents did not factor into the decision making process. As a result, the Government of Nunavut had trouble staffing its offices; local residents did not receive the jobs they were expecting; and significant financial problems were experienced in the first six years of operations.

The Auditor General of Canada has noted in her reports to the Nunavut Legislative Assembly that essential financial controls have not yet been established in the departments, agencies and Crown corporations of the government. As a result, good financial management, accountability and overall management of public funds have not been achieved. The Auditor General had stated in each of her three reports that good financial management and effective internal controls are essential to ensuring spending is controlled, assets are protected and government objectives are met.

Government spending is essential for the future economic development of Nunavut. The Government of Nunavut is the key economic driver and major employer in the territory. Government funding is being used to develop the physical, human, social and natural capital of Nunavut. Future economic development can only be realized in Nunavut with significant investment by government. As a result, loss of government

funds through mismanagement, error and/or fraud can have a direct impact on the residents of Nunavut and must be avoided.

To prevent loss and mismanagement of government funds and promote effective program delivery, the Government of Nunavut should implement an effective internal control system. The control system has to promote good financial management and accountability. A comprehensive risk analysis aimed at identifying control weaknesses in each department, agency and Crown corporation is the first step.

Once control weaknesses have been identified, designing an effective internal controls system to mitigate the risks associated with these weaknesses is necessary. Management should design a system that takes best practices and the unique operating environment of the Nunavut into account. The provisions of Sarbanes-Oxley Act from the United States should be used to guide the risk assessment activities. Requiring management to design, assess and report on the effectiveness of internal controls on a regular basis will help ensure government resources are protected from misappropriation and provide reasonable assurance that financial reports are reliable.

One of the key challenges in implementing good financial management and internal controls is the lack of qualified and experienced accounting and financial management employees throughout Nunavut. This issue must be addressed through training, contracting or the design of compensating controls.

Implementing an internal control system will require a significant amount of employee training. It is imperative that employees understand their responsibilities within the control system and why such controls are important. In addition, management will have to lead by example and foster a positive work environment in which ethics and

honesty are highly valued. Employees need to be made aware of which behaviours are acceptable and which are not. Consequences for unacceptable behaviour need to be clearly communicated as well. Providing training on fraud risk factors and red flags will improve management's ability to detect fraudulent transactions.

Maintaining controls in a decentralized structure can be difficult, especially when qualified and experienced employees are hard to attract and retain. Government officials need harmonize its decentralization goals with the technical capabilities of its staff. In addition, the Government of Nunavut needs to clearly specify what Inuit values it sees as essential and reflect these traditions into its administrative structures.

Introduction

The majority of information published on fraud relates to the private sector; however, the principles of how to prevent and detect fraud can be applied to government operations as well. Identifying fraud risks and related control requirements in the public sector can help promote good financial management, improved accountability and better overall management of the public purse – an objective the majority of Canadians would agree is very important.

Risk analysis and control assessment in the Government of Nunavut (GN) operations presents an interesting challenge. The GN is a new government – it was created only six years ago. It officially became the third territorial government in Canada, separating completely from the Government of the Northwest Territories in 1999.

The socio-economic environment of Nunavut at the time was characterized by a cash-starved land-based economy where many Inuit still relied on their traditional way of life. Physical infrastructure, such as roads, sea and air links, commercial property, was very limited and employment opportunities were practically non-existent. Low levels of education and marketable skills among Inuit limited their ability to obtain positions in the small wage economy that did exist.¹

The architects of the Government of Nunavut believed decentralizing government operations to the community level would provide Inuit with much needed employment, improve standard of living and promote individual and community self reliance. It was believed the private sector would develop as local businesses would benefit from

¹ Economic Services of Canada, *An Examination of the Nunavut Economy*, Retrieved April 11, 2005, from <http://www.gov.nu.ca/fr21.pdf>, page 19.

spending by the new civil servants and the government itself. However, the decision makers made no attempt to determine the level of skills, qualifications and experience of local residents when deciding which government functions to allocate to various communities.² As a result, government departments were understaffed, both in numbers and level of skill. The principles of good financial management, accountability and controls over spending were secondary to job creation. As a result, the Government of Nunavut has experienced serious financial management problems.

Could these problems have been prevented if the GN had adequately assessed the skill levels at the community level before setting up government offices and assigning program responsibilities? Was it realistic for the designers of the government to believe that people still closely tied to a traditional hunter/gatherer lifestyle could effectively deliver government programs and manage financial resources? This paper will examine the experience of the Government of Nunavut to date with respect to financial management control issues and make recommendations on how financial controls could be improved.

² Millenium Partners, *Building Nunavut Through Decentralization*, February 2002, page 3.

Building a New Government

Background

On April 1, 1999 the territory of Nunavut was created. The name chosen for the new territory symbolized the struggle of Inuit and Northern leaders to finalize what would become the largest land claim settlement in Canadian history. In Inuktitut, Nunavut translates into “our land”³. The journey to Nunavut began in 1973 with a study of Inuit land use and occupancy in the Arctic. The results of this study demonstrated the extent of Inuit land title in the North and formed the geographic basis of the Nunavut Territory.⁴ The following is a timeline of the more significant events in the creation of Nunavut.

Table 1

The Road to Nunavut: A Chronological History (Source: The Road to Nunavut)⁵

Year	Event
April 1990	The Nunavut Tunngavik Inc. (NTI - representing the Inuit of Nunavut) and representatives of the federal and territorial governments sign a land claims agreement-in-principle in April. The government supports the division of the Northwest Territories and provides for a plebiscite on boundaries.
January 1992	NTI and government negotiators come to an agreement on the substantive portions of a final lands claim agreement for the Nunavut region. The agreement contains commitments for the creation of a Nunavut territory and government, subject to a boundary plebiscite and the conclusion of the Nunavut Political Accord. This Accord would detail the timetable and process for establishing Nunavut.

³ Nunavut Implementation Commission, *Footprints in New Snow*, March 1995, page 1.

⁴ The Road to Nunavut, Retrieved April 19, 2005 from <http://www.gov.nu.ca/Nunavut/English/about/road.shtml>

⁵ The Road to Nunavut, Retrieved April 19, 2005 from <http://www.gov.nu.ca/Nunavut/English/about/road.shtml>

May 1992	An overall majority of voters in the Northwest territories and the Nunavut area approve the proposed boundary for division in a May plebiscite.
October 1992	NTI and government representatives sign the Nunavut Political Accord, setting the creation of Nunavut as April 1, 1999.
November 1992	The Inuit of Nunavut ratify the Nunavut Land Claims Agreement.
May/June 1993	The Nunavut Agreement is signed in May. In June, the <i>Nunavut Land Claims Agreement Act</i> and the <i>Nunavut Act</i> are adopted by Parliament and receive Royal Assent.
April 1999	The Nunavut Territory and Government come into existence on April 1.

Nunavut is the largest territory/province in Canada. It encompasses one-fifth of Canada's total land mass and two thirds of its coast line. Nunavut has 26 communities, all located on or near the sea for easy access to traditional hunting grounds. (See Appendix A for a map of Nunavut). The population of these communities range from 26 to 6000 persons. None of the communities are connected by roads. As a result, air and marine transportation in Nunavut are extremely important as they are the only means of moving people and obtaining supplies.⁶

Self-Government through a Public Government Structure

The Nunavut Land Claims Agreement (NLCA) was negotiated by three parties – the Nunavut Tunngavik Inc. (representing the Inuit people), the Government of Northwest Territories/Northern leaders and the Government of Canada. The agreement is unique in that the Inuit chose to pursue self-determination through a public government structure that would represent all Nunavummiut - Inuit **and** non-Inuit. It resulted in the only territory/province sharing the same geographical boundary as an aboriginal

⁶ Economic Services of Canada, *An Examination of the Nunavut Economy*, Retrieved April 11, 2005, from <http://www.gov.nu.ca/fry21.pdf>, page 19.

organization and a public government highly influenced and impacted by a working relationship with that same aboriginal organization.⁷

The role of NTI is to protect the rights of Inuit under the NLCA. The land claim agreement contained provisions guiding the socio-economic development Nunavut and its new government, the hiring of Inuit in the public service and the principles of government contracting. The relationship of NTI to the new Government of Nunavut was formalized in the Clyde River Protocol (See Appendix B)⁸ following the creation of Nunavut in April 1, 1999

Challenges of Nunavut

In 1999, the socio-economic environment of Nunavut presented major challenges to the architects of the new territorial government. There were 26 communities, most with populations below 1,000, spread over a huge geographical area with poor communications and transportation systems. A limited wage economy existed in Nunavut with little economic diversification. Many Inuit still relied on their traditional economy of hunting, trapping, gathering and fishing resulting in a small number of skilled workers for the wage economy and a cash-starved land-based economy. Low education levels and few employment opportunities led to low levels of income.⁹

The major source of revenue for the new government would be transfers from the Government of Canada. It was estimated that over ninety per cent of revenue would come

⁷ Nunavut 99 A Public Government, Retrieved April 19, 2005 from http://www.nunavut.com/nunavut99/english/public_gov.html

⁸ Economic Services of Canada, *An Examination of the Nunavut Economy*, Retrieved April 11, 2005, from <http://www.gov.nu.ca/fry21.pdf>, page 39.

⁹ Economic Services of Canada, *An Examination of the Nunavut Economy*, Retrieved April 11, 2005, from <http://www.gov.nu.ca/fry21.pdf>, page 19.

from the federal government.¹⁰ This level of reliance was not new - the previous Government of Northwest Territories was, and still is, highly dependent on federal transfers. The difference for the people of Nunavut is that they would now be electing their own government and Inuit would be responsible for choosing their leaders and making decisions for their future.

The most significant challenge for the new Nunavut government was the lack of physical infrastructure that negatively impacted the economic development of the region. Nunavut communities were isolated with no roads, little marine infrastructure and could only be reached by air for the majority of the year due to the extreme climate. The majority of communities relied on trucked water and sewage services and were completely dependent on imported oil for diesel generation of power. All supplies needed by the people of Nunavut had to be shipped in during the summer months. In addition, there was a shortage of housing and business space.¹¹ This lack of infrastructure contributed to a cost of living that was among the highest in Canada. The economic realities in Nunavut contributed to a number of social problems as well, such as, high rates of suicide, family violence, violent crime and drug and alcohol abuse.¹²

The establishment of permanent settlements in the western Arctic had a profound impact on the Inuit traditional way of life. The communities developed around military installations set up to assert Canadian sovereignty or were established by federal and

¹⁰ Economic Services of Canada, *An Examination of the Nunavut Economy*, Retrieved April 11, 2005, from <http://www.gov.nu.ca/fry21.pdf>, page 3.

¹¹ Economic Services of Canada, *An Examination of the Nunavut Economy*, Retrieved April 11, 2005, from <http://www.gov.nu.ca/fry21.pdf>, page 3.

¹² Economic Services of Canada, *An Examination of the Nunavut Economy*, Retrieved April 11, 2005, from <http://www.gov.nu.ca/fry21.pdf>, page 35.

territorial governments as administrative centres. Inuit, who traditionally were nomadic hunters and gatherers, were encouraged to move into homes, provided mainly by government at subsidized rates, and assume a lifestyle associated with southern Canada.

Federal civil servants were originally sent North by the Government of Canada to administer education, health, welfare and economic development programs. These responsibilities would later be assumed by the Government of the Northwest Territories. In the opinion of some, the arrival of the federal civil servants created a class society in northern communities.¹³ Due to their lack of education and vocational skills, Inuit were denied jobs other than those requiring low levels of skill. In the book, *The People's Land* by Tom Brody, it was argued Inuit lived a low quality of life while federal civil servants continued to live in a southern middle-class style.¹⁴

The voluntary and involuntary movement of Inuit to settlements created many of the problems the new Government of Nunavut would have to face. Including:

- Average family size increased from two children to between six and ten resulting in extreme housing shortages and overcrowding conditions.
- Employment opportunities were non-existent in most communities.
- Families could no longer live independent lifestyles and became dependent on government social programs.
- The lack of employment opportunities in communities resulted in high drop out rates from the education system as students could not see a link between higher levels of education and gainful employment.

¹³ Donald Purich, *The Inuit and Their Land – The Story of Nunavut* (Toronto: James Lorimer & Company, Publishers, 1992), 46

¹⁴ Donald Purich, *The Inuit and Their Land – The Story of Nunavut* (Toronto: James Lorimer & Company, Publishers, 1992), 46.

- The dependence on government social programs had a negative impact on the social lives of Inuit and their institutions.¹⁵

The Design and Role of the New Government

A major priority of the new Government of Nunavut would be dealing with the socio-economic problems that existed in most communities. The design, organization and principles on which the GN was founded reflected the hope that government spending would improve Inuit standard of living. This desire is clearly evident in the report, *Footprints in New Snow*, prepared by the Nunavut Implementation Commission in 1995. In this document, the Commission outlined principles on which the GN should be founded. They are as follows:

Table 2

Government of Nunavut Founding Principles

(Source: *Footprints in New Snow*)¹⁶

The government must be designed and implemented so as to be democratically constituted, administratively competent and culturally attuned.
The government must be designed and implemented to promote the expansion and diversification of the Nunavut economy, both by way of aggregate economic sectors and by way of geographical distribution of economic activity.
The Nunavut workforce must reflect the people governed; education and training plans must build towards the objective set in the Nunavut Agreement of representative levels of Inuit employees (80-85%); in order to be credible, the Nunavut government must begin its existence with a proportion of Inuit in the current public sector workforce (approximately 50%).
Financing the government must balance the needs of Nunavut residents for acceptable levels of material well-being and access to key government services, with the broader financial circumstances of the government and people of Canada; Ottawa/Nunavut financial arrangement should promote self-sufficiency.
The most important political link for the people of Nunavut will be the link between the government of Nunavut and the government of Canada; relations with other jurisdictions

¹⁵ Donald Purich, *The Inuit and Their Land – The Story of Nunavut* (Toronto: James Lorimer & Company, Publishers, 1992), 47.

¹⁶ Nunavut Implementation Commission, *Footprints in New Snow*, March 1995, page 15.

will be of lesser importance.

Issues of timing and phasing associated with the design and implementation of the Nunavut government must be decided according to the practical implications that flow from the application of other organizing conclusions.

It was believed that building the GN on these principles would promote economic development, Inuit participation in the public sector workforce and self reliance.

The administrative structure of the GN did not have to be constructed from scratch. Regional and local administration existed throughout Nunavut as part of the Government of the Northwest Territories (GNWT). Employees of the GNWT, living in what would become Nunavut, would be transferred to the new government. The task of the new government was to “introduce an efficiently organized headquarters level onto a solid regional and local administration that already existed in Nunavut.”¹⁷ In addition, all of the laws of the Northwest Territories were to be adopted by Nunavut as of April 1, 1999. The idea was to amend the statutes to reflect the needs of Nunavut as time passed.

Given the priorities of the new GN and its founding principles, the organizational structure of the government would reflect two key elements – community government and decentralization. Northern leaders decided there was to be only two levels of government in Nunavut – community and territorial. It was believed that implementing strong community government would increase local decision making, accountability, community and personal self reliance. In addition, community government would be responsible for designing and delivering government programs in a manner that best suited its needs.¹⁸

¹⁷ Nunavut Implementation Commission, *Footprints in New Snow*, March 1995, page 44.

¹⁸ Nunavut Implementation Commission, *Footprints in New Snow*, March 1995, pages 24-25.

To build strong community governments it would be necessary for the territorial government to be decentralized. This meant delegating decision making and financial management authority to the community level. It was believed that this delegation would promote the greatest accountability to the people of Nunavut, provide employment opportunities, provide communities with the opportunity to strengthen and diversify local economies and improve access to government programs and services. When deciding on the structure of government departments, the number of communities, the population in the communities, the desire to promote efficient operations, and the need to respect Inuit culture were taken into consideration.¹⁹ It should be noted that the existing capacity in communities did not factor into consideration. In all of the agreements reached leading to the creation of Nunavut, there were assurances to the people of Nunavut that the new government would be staffed by Inuit as soon as practicably possible. More specifically, the government would be reflective of the people it served – that is, 85% of employees should be Inuit. The new government was legally, politically and morally bound to these assurances and they were to be the foundation on which the government would be established.²⁰

Given the economic challenges outlined earlier, the responsibilities of the new government in Nunavut were daunting. Ideally:

- Economic development strategies would benefit all areas of Nunavut
- The GN was to become the largest employer and customer of local businesses thereby stimulating the private market sector and local economies.

¹⁹ Nunavut Implementation Commission, *Footprints in New Snow*, March 1995, page 47.

²⁰ Nunavut Implementation Commission, *Footprints in New Snow*, March 1995, page 4

- Heavy emphasis would be placed on training to increase Inuit participation in the public sector to representative levels thereby increasing self reliance.
- Economic strategies would follow the principles of sustainable development and include activities of both the wage and traditional land-based economies
- Economic strategies would make use of “that which are long known by Inuit” or Inuit Quajimajatuqangit (IQ). That is, economic development that improves the standard of living of Inuit but maintains culture and tradition.²¹

The goal of the new government was to create “healthy communities” by decentralizing the government structure and increasing the participation of communities in decision making and Inuit in the wage economy to promote self reliance. It was the belief of Northern leaders that “without healthy communities and healthy, skilled citizens, a jurisdiction’s economic growth would be limited. Similarly, without a solid economic base, it would not be possible to financially sustain health and social programs that are important to citizens”.²² From this comment, it can be concluded that a well functioning government was crucial to the health and well being of the people of Nunavut. Although the GN hoped to stimulate the private sector through government spending, realistically its main goal was the redistribution of a government based economy.

²¹ Economic Services of Canada, *An Examination of the Nunavut Economy*, Retrieved April 11, 2005, from <http://www.gov.nu.ca/fry21.pdf>, page 1.

²² Economic Services of Canada, *An Examination of the Nunavut Economy*, Retrieved April 11, 2005, from <http://www.gov.nu.ca/fry21.pdf>, page 2.

Government of Nunavut: Consensus Government

The GN was established as a Consensus Government with powers similar to those of the Government of Northwest Territories. It has an elective assembly operating within the principles of the Canadian parliamentary democracy, a cabinet and a territorial court. All residents of Nunavut can run for political office but there are no political parties represented in the Legislative Assembly. Individuals are elected on their own merit. After an election, the Members of the Legislative Assembly will meet to select a Premier and cabinet members. Individuals who are not selected as cabinet ministers perform the role of the opposition.

The idea of consensus and decentralized government is very much connected to Inuit Quajimajatuqangit (IQ). The new GN was very committed to incorporating IQ as a guiding principle of public government. IQ is very difficult to define - it is the embodiment of Inuit traditional knowledge and values and refers to a number of principles including passing down of traditional knowledge from elders to younger generations; a system of consultation before making important decision making; a knowledge of healing and counselling methods and assisting fellow Inuit who need help; and, an understanding of complex family relationships.²³

Incorporating IQ into a public government structure meant "...using Inuit traditional knowledge and values to guide the GN's framing decisions, policies and laws that reflect the key philosophies, attitudes and practices of Nunavut's Inuit majority".²⁴ More specifically, it meant using consensus and consultation in decision making, focusing

²³ Government of Nunavut, *Consensus Government*, Retrieved April 4, 2005 from <http://www.gov.nu.ca/Nunavut/English/about/cg.pdf>

²⁴ Government of Nunavut, *Consensus(2) Government*, Retrieved April 4, 2005 from <http://www.gov.nu.ca/Nunavut/English/about/cg.pdf>

economic development at the community level for the benefit of the entire community and incorporating the traditional Inuit way of life and the land based economy into strategies for future development. In August 1999, the newly formed government outlined guiding principles in the Bathurst Mandate *Pinasuaqtavut* or “that which we have set out to do”. The Bathurst Mandate is located in Appendix C. A review of this document shows that the GN was committed to adhering to the principles upon which the territory was founded.

The initial structure of the GN was decentralized to communities as planned. The first government was composed of ten departments, each headed by a Minister. The new capital city of Iqaluit housed the Legislative Assembly, the Departments of Executive and Intergovernmental Affairs, Finance and Administration, Human Resources and Justice; along with the ministerial, policy and planning, financial administration and personnel-related functions of the other GN departments. Government offices and public servant positions were allocated to ten communities; Igloolik, Rankin Inlet, Cambridge Bay, Cape Dorset, Arviat, Gjoa Haven, Kugluktuk, Pangnirtung, Baker Lake and Pond Inlet. See Appendix D for the allocation of government departments and positions.²⁵

Decentralization of the Government of Nunavut occurred in three stages. In the first stage, prior to the creation of Nunavut in 1999, government buildings and staff accommodations were constructed. In April 1999, government employees were hired or transferred from the GNWT and assigned to communities. The final stage called for the development of plans to support existing and future decentralized operations.²⁶

²⁵ Nunavut 99 A Public Government, Retrieved April 19, 2005 from http://www.nunavut.com/nunavut99/english/public_gov.html

²⁶ Millenium Partners, *Building Nunavut Through Decentralization*, February 2002, page 5.

Decentralization – Success or Failure

What impact did the decentralized structure have on the operations of the Government of Nunavut? Was the government able to achieve its objectives with this structure? Are more Inuit employed in the public sector in Nunavut? Has the overall economy and standard of living improved in Nunavut? To answer these questions, this paper will examine the socio-economic environment of Nunavut in 2005. In addition, the GN's experience with a decentralized structure will be evaluated in relation to successful decentralization standards.

Nunavut 2005

The socio-economic environment of Nunavut in 2005 is very similar to that of 1999 - the same problems exist. The economy is still in the developing stage with limited physical infrastructure and essential services such as schools and health care. Communities have not been linked and are dependent on air and sea links for supplies. The education levels of Nunavummiut are still among the lowest in Canada resulting in a workforce that is under skilled with low earnings. The government is the largest component of economic activity with the majority of its revenue coming from the Government of Canada. The population is still the youngest and fastest growing in Canada. In addition, the percentage of Inuit employed in the public sector has not increased significantly since 1999.²⁷ See Appendix E for a summary of Inuit participation rates in the public service of Nunavut.

²⁷ Government of Nunavut, *Our Land*, Retrieved April 4, 2005 from <http://www.gov.nu.ca/Nunavut/English/about/ourland.pdf>

Decentralization Standards

In the book *The Tools of Government – A Guide to the New Government*, Lester Salamon identifies four critical components associated with a successful decentralized government.²⁸ The first relates to the structure of the government itself. Decision making has to be delegated in all government organizations, to a certain extent. It is not possible to operate a government efficiently or effectively if decision making authority is centred in one headquarters or central location. The key to effective delegation is establishing a structure in which lines of authority and responsibility are clearly defined and understood. This understanding can be achieved using rules, guidelines, directives, manuals and training. In addition, effective reporting requirements and central management review is required to ensure authority and responsibilities are being used effectively and accountably.

Once a government has established a structure and delegated decision making authority, central managers must ensure that authority is being used responsibly. The most effective way to manage delegated authority is through cooperation and integration of employees around a shared organization culture or mission. This requires employees' acceptance and understanding of the mission of the department or agency and a clear understanding of what the agency or department is trying to achieve – its “distinctive competence”.²⁹ It involves the fostering of team spirit through meetings, team building exercises, training and mentoring.

²⁸ Lester M. Salamon, *The Tools of Government – A Guide to the New Governance*, (New York: Oxford University Press, 2002), pages 55-60.

²⁹ Lester M. Salamon, *The Tools of Government – A Guide to the New Governance*, (New York: Oxford University Press, 2002), pages 57.

A well designed organizational structure and a shared culture will allow a government to achieve its objectives only if employees have the required skills to carry out their assigned responsibilities. When a new department or agency is established, it is essential that central management evaluate the skill sets of its employees to ensure they can handle their assignments. If gaps are identified, training programs should be set up as soon as possible and arrangements made for contractors to assist in running the department/agency until employees' have the necessary skills. An assumption here is central management has the skills required to assess the level of competence in the decentralized operations. If this is not the case, then it is absolutely necessary for senior bureaucrats to have the requisite skills and vision to reconcile the objectives and responsibilities of their departments to the organization's eventual structure and the employees that are available to carry out the responsibilities.

The final component required for a successful decentralized structure is mechanisms to secure and account for financial resources. Internal controls are necessary to ensure spending is controlled and assets are protected. Internal controls include reconciliations, segregation of duties, management review, etc. In most government agencies, budgets are used extensively to monitor the use of public funds. To be effective, all four components must be in place and functioning to be successful.³⁰

Decentralization Evaluation – Nunavut

In February 2002, a report commissioned by the Government of Nunavut on the success of decentralization was issued. In this report, entitled *Building Nunavut through*

³⁰ Lester M. Salamon, *The Tools of Government – A Guide to the New Governance*, (New York: Oxford University Press, 2002), pages 55-60.

Decentralization, the GN reiterated its commitment to decentralization and restated the objectives it hoped to achieve with this administrative structure. In summary, the government hoped to increase employment opportunities; build community capacity to strengthen local economies; improve access to government programs; and increase individual and community self-reliance. The purpose of the report was to identify both successes and failures in the decentralization of government operations to date and apply the lessons learned to decentralization strategies in the future.

The report identified the considerable challenges facing the new departments of the GN. Departmental personnel were tasked with the responsibility of establishing the programs/services they would provide and the roles of headquarters and regional offices in the delivery of those services. Once this was determined, they then had to develop an administrative structure that would facilitate effective program/service delivery. This included basic operational items such as computer systems, charts of accounts, budget control systems, reporting requirements, authority delegation and records systems. Once this was in place, employees had to be hired, trained and assigned responsibilities.³¹

Through interviews with employees and community residents, the authors of the report identified fundamental problems in the manner in which the GN implemented its decentralized administrative structure. The problems encountered resulted from the fact “...there was a very limited framework of philosophy around program and service outcomes to support this important initiative (decentralization). The focus appears to have been on doing everything possible to get the new offices up and running without a great deal of consideration for how the Government of Nunavut will position itself to do

³¹ Millenium Partners, *Building Nunavut Through Decentralization*, February 2002, page 7.

business with 69% of the public service outside the capital.”³² There appears to have been insufficient thought put into how the offices would function, the assignment of responsibilities to those offices and their relationship to head office. In addition, many of the employees indicated they were not given sufficient information, orientation and the training required to do the jobs.

The report also presented a number of problems identified by employees and community residents during the first two years of the GN decentralization effort. They are as follows:

- The GN did not adequately assess the qualifications of the local residents when deciding which functions to decentralize. As a result:
 - The GN had trouble staffing its offices. In 2001, there was a vacancy rate of 37% in the districts.
 - The rate of Inuit employed in the public service did not substantially increase – only 59% of community positions were filled by Inuit. Over the entire Nunavut public service, Inuit filled only 42% of positions.
 - The number of employment opportunities increased in the ten communities selected for government offices; however, local residents were not successful in obtaining positions due to a lack of experience and employable skills. As a result, it was necessary to hire people from outside the community and the territory to carry out the responsibilities until local residents obtained the necessary skills.
- The GN did not take staff housing capacity into consideration when allocating offices/positions to communities. This led to delays in decentralization in communities where staff housing was not available and expedited in others with excess staff housing capacity.

³² Millennium Partners, *Building Nunavut Through Decentralization*, February 2002, page 3.

- Significant communication problems between head office and community staff were encountered. Head office staff was slow to respond to regional requests for guidance and assistance.
- Employees had difficulty identifying where they fit into their respective departments and the GN as a whole.
- The poor quality of the GN's wide area network negatively impacted productivity in a number of communities.
- Residents did not know what programs/services were being handled by the government offices in their communities.
- Low employee morale was noted due to:
 - Inconsistent staff training and orientation
 - Limited communications with head office staff
 - Limited involvement in department planning process
 - Overly bureaucratic administrative processes
 - Inadequate delegation of authority levels increasing the difficulty of providing services on an efficient and effective basis
 - Lack of established rules and guidelines to assist in day to day operations
- Managers were focused on getting the offices up and running and could not concentrate on service/program delivery.

In the previous section, four critical components associated with successful, decentralized government organizations were identified. They are: a carefully conceived organizational structure in which lines of authority and responsibility are clearly defined; a shared organizational culture in which employees have a clear understanding of what the organization is trying to achieve; employees who have the necessary training and skills to carry out their responsibilities; and mechanisms to monitor the use of the organization's resources.

From the list of problems identified by employees of the GN after two years experience with decentralization, it is obvious that the four critical components were not adequately addressed by the GN in its decentralization process. The government structured its operations without adequate consideration of the capacity that existed in the communities chosen for decentralization or a concrete plan on how the regional and headquarters office would function together to deliver programs/services. Many employees did not receive adequate training, orientation or information on what they or their department/office was set up to accomplish. Even though gaps between an employee's job responsibilities and his/her qualifications were identified there were no training plans set up to address the issue. Head office staff did not communicate with regional staff in an effective or efficient manner resulting in lower than acceptable monitoring of government resources.

Based on the above discussion, it appears as if the decision makers did not clearly understand the need for sound organizational and control structures. As stated above, the emphasis was on getting the offices functioning and employing the people. As seen in the next section, the failure to adequately address the roles and relationships of the various government departments and to assess the capacity in the communities led to significant problems for the Government of Nunavut.

Impact of Decentralization Problems on GN Operations

When there are fundamental problems with the administrative structure of a government organization, the number of employees they are able to hire and retain, the level of qualifications of its employees, a lack of communications and ineffective monitoring by head office management, one can assume internal control weaknesses exist as well. To determine if this is the case for the GN, reports prepared by the Office of the Auditor General of Canada (OAG) for the Legislative Assembly of Nunavut were examined. The results of these reports follow.

The OAG has the legal responsibility of auditing the financial statements of the Government of Nunavut, its crown corporations and agencies. In addition to auditing financial statements, the OAG comments on issues it feels the government needs to address to better meet its mandate and improve accountability. Since 1999, the OAG has presented three reports to the GN. The first report was issued in 2001 and addressed problems identified during the audit of the March 31, 2000 financial statements.

In her report, the Auditor General referred to the need for the GN to develop good financial management practices as part of its process of promoting “good government”. Good government includes “good leadership, good employees and a vision for the future. It also means good financial health and management.”³³ Good financial management practices include controls over revenue and spending; acquiring complete and reliable information for decision making; and risk management. The OAG presented a financial management capability model that outlines the stages a new government or organization

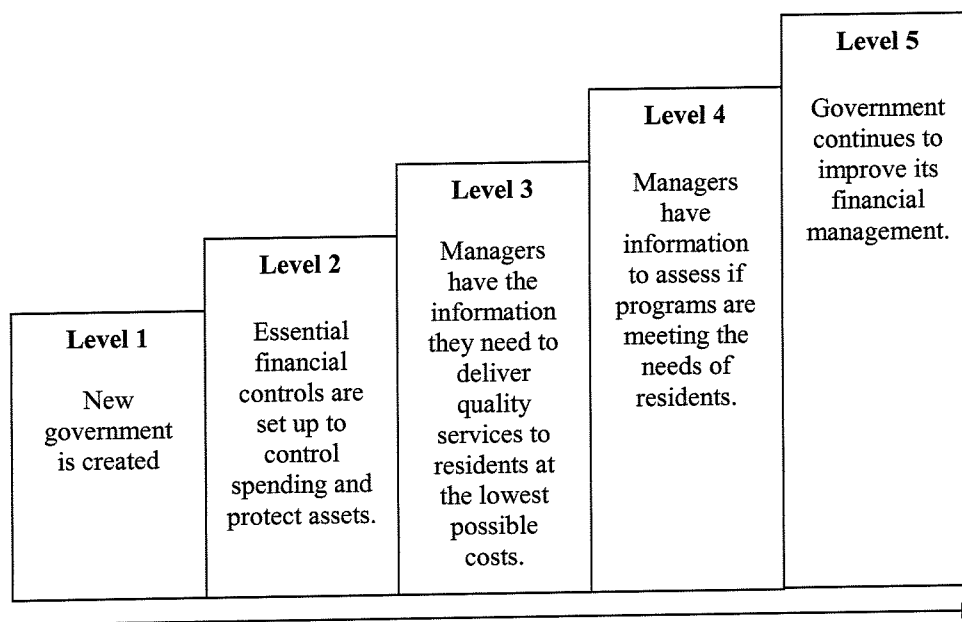
³³ 2001 Report of the Auditor General of Canada to the Legislative Assembly of Nunavut, Retrieved April 26, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200111nla_e.html , page 8.

should go through when building good financial management and information on the GN's progress in relation to this model.

Exhibit 1

Building Good Financial Management

(Source: Adapted from Office of the Auditor General of Canada's financial management capability model)



In 2001, the GN was at Level 1 and working towards establishing essential controls of Level 2. The government predicted it would reach Level 2 by 2004.³⁴

The OAG identified a number of challenges that would make moving to Level 2 difficult. They included:

- A lack of professional accountants and financial managers with adequate levels of training and experience.
- No controls in place to control spending and protect assets

³⁴ 2001 Report of the Auditor General of Canada to the Legislative Assembly of Nunavut, Retrieved April 26, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200111nla_e.html , page 14.

- Accounting rules and records incomplete or up to date
- No effective management reviews or reconciliations completed – including budgetary reviews
- No internal audit function
- High staff vacancy rates and the lack of a training program to address the shortage of accountants³⁵

Given the above challenges, it is not surprising the GN encountered a number of serious financial problems in the first year of operations. Due the lack of qualified accountants and inadequate accounting rules, all money owed to the government was not collected and employees were not aware of or following financial rules. In fact, the Auditor General stated that “some of the GN’s practices in collecting and spending money concern us because they do not meet legal requirements”.³⁶ Financial statements were not completed on a timely basis and managers were not provided with sufficient information for decision making. The lack of budgetary review increased the difficulty of assessing government operations to date.

Problems with specific departments and crown corporations were also noted including the Department of Health spending more than authorized and the external auditor of the Nunavut Business Development Corporation reporting control weaknesses so serious the audit opinion had to be qualified. These weaknesses included the failure of

³⁵ 2001 Report of the Auditor General of Canada to the Legislative Assembly of Nunavut, Retrieved April 26, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200111nla_e.html , page 12.

³⁶ 2001 Report of the Auditor General of Canada to the Legislative Assembly of Nunavut, Retrieved April 26, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200111nla_e.html , page 5.

the corporation to collect and record all money it was owed, payment of expenses without source documentation and inadequate control over inventories.³⁷

In the Auditor General's report to the Nunavut Legislative Assembly on the March 31, 2001 financial statements, many of the same problems above still existed. Five government departments spent \$32 million more than was authorized by the government. Controls at the Nunavut Development Corporation had not improved resulting in another qualified audit opinion. Ineffective revenue management resulted in delays in collecting accounts receivable and the growth of one receivable from the Government of Canada from two to thirty two million in a two year period. Unapproved payments were noted in a number of departments as a result of a complex approval structure that was not understood and/or enforced by employees.

In this report, the Auditor General noted financial management controls are essential in a government as decentralized as the GN to ensure programs/services are delivered in the most efficient and effective manner, managers have the information they need to make decisions and risks can be identified and managed where necessary. It was also noted that establishing these essential controls – moving to Level 2 of the Building Good Financial Management Model – is difficult in Nunavut given the shortage of accountants and financial management employees and the small number of employees in some departments.³⁸ As a result of these facts, the Government of Nunavut had still not reached Level 2. The following list of recommendations made by the OAG to the government

³⁷ 2001 Report of the Auditor General of Canada to the Legislative Assembly of Nunavut, Retrieved April 26, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200111nla_e.html , page 5.

³⁸ 2002 Annual Report to Nunavut Legislative Assembly – Comments on our work related to 2000-2001 Financial Statements, Retrieved on April 11, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200211nla_e.html, page 8.

illustrates the fact that essential and basic management controls had not yet been established.

Table 3

Financial Management Recommendations of the OAG³⁹

Recommendation	Example of Poor Financial Management
Ensure budgetary controls operate effectively.	The Nunavut Arctic College has a June year end. The Board of Governors approved the budget for 2001 in June 2001 – the final month of the fiscal year.
Implement good records management.	The Government of Nunavut had difficulty locating expense vouchers and signed copies of revenue agreements.
Ensure key reconciliations are completed promptly.	Reconciliation for the government bank accounts for the period ending March 31, 2001 were not completed until September 2001.
Submit revenue claims promptly.	The Department of Health was required to submit an audited report to the Government of Canada for reimbursement of certain health care costs. As of March 2000, the receivable was estimated at \$2 million. By March 2002, the report had still not been submitted and it was estimated the receivable had grown to \$32 million.
Bill revenue promptly.	The Arctic College failed to bill sponsors of courses on a timely basis resulting in one sponsor refusing to pay the amount owing.
Monitor accounts receivable and collect them when due.	The Arctic College failed to monitor accounts receivable balance on a timely basis resulting in a year delay in collecting approximately \$800,000 in receivables from course sponsors.
Analyze revenues for Formula Financing Agreement calculations.	The GN is dependent on the Government of Canada for the majority of its revenue. The revenue it receives is based on a Formula Financing Agreement. The government has to analyze its own revenue sources to determine if the amount received should be increase/decrease. The analysis for the year ended March 31, 2001 was not completed until

³⁹ 2002 Annual Report to Nunavut Legislative Assembly – Comments on our work related to 2000-2001 Financial Statements, Retrieved on April 11, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200211nla_e.html, page 18.

	February 2002.
Ensure signing authorities operate as intended.	Numerous issues with department employees approving purchases above their limits.
Ensure employment leave records are accurate.	Many examples where employee leave was not updated or accurately recorded.
Complete and table financial statements promptly.	The Government of Nunavut's Public Accounts were tabled as follows: <ul style="list-style-type: none"> • 1999/00 – May 2001 • 2000/01 – May 2002 • 2001/02 – June 2003

In 2004, the OAG issued a report to the Government of Nunavut entitled *Looking Back and Moving Forward: Auditor General of Canada's First Report to the Second Legislative Assembly of Nunavut*. Unlike the first two reports, this report was not directly linked to a specific fiscal year. Rather, it identified issues the OAG believed should be brought to the attention of the Legislative Assembly.

In the area of financial management, the Auditor General noted the GN had still not progressed to Level 2 essential financial controls.⁴⁰ Some improvements had been made. An internal audit function had been implemented and, in 2003, the government did assess the overall state of its financial controls and identified areas where improvements are required. However, there were still concerns that the 2004 target date would not be met. The following reasons were cited:

- The shortage of experienced accounting staff within the government still exists.
- The GN's deteriorating financial condition may result in the government not having adequate financial resources to improve financial controls.

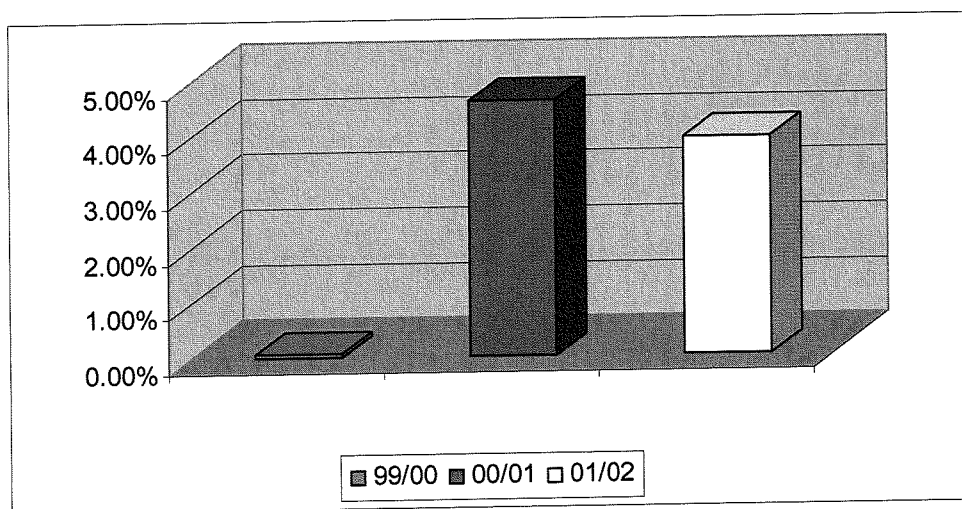
⁴⁰ Looking Back and Moving Forward: Auditor General of Canada's First Report to the Second Legislative Assembly of Nunavut, Retrieved on April 11, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200405nla_e.html, page 5.

- Problems with financial controls at the government's Crown corporations were becoming more prevalent. As a result, attempts have to be made to include the Crown corporations in the improvement process.
- The Assembly was still approving spending after the money is already spent. Exhibit 2 illustrates the percentage of expenditures the Legislative Assembly has approved after the money was already spent from 1999 to 2002.
- Signing authorities were still not being followed correctly.
- Financial statements and annual reports of the Public Accounts, Crown corporations and agencies continue to be filed late.⁴¹

Exhibit 2

Percentage of Total Spending Approved After Money Already Spent

(Source: Looking Back and Moving Forward: Auditor General of Canada's First Report to the Second Legislative Assembly of Nunavut)⁴²



⁴¹ Looking Back and Moving Forward: Auditor General of Canada's First Report to the Second Legislative Assembly of Nunavut, Retrieved on April 11, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200405nla_e.html, page 5-18.

⁴² Looking Back and Moving Forward: Auditor General of Canada's First Report to the Second Legislative Assembly of Nunavut, Retrieved on April 11, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200405nla_e.html, page 11.

The 2004 report also focused on significant control weaknesses within the Crown corporations of the Nunavut government. There are five Crown corporations – Qulliq Energy Corporation (formerly known as Nunavut Power Corporation), Nunavut Business Credit Corporation, Nunavut Housing Corporation, Nunavut Development Corporation and Nunavut Arctic College. These organizations account for 25% of total government spending. All but one of the corporations, the Nunavut Housing Corporation, has a board of directors that oversees management. Although they have greater independence than government departments, they are still accountable to the Legislative Assembly through their responsible ministers. Each corporation operates under its own enabling act and provisions of the *Financial Administration Act* that require they submit annual corporate plans and budgets for government approval. Annual reports, with audited financial statements, are required to be tabled in the Legislative Assembly three months after the corporations' year ends.⁴³

The Auditor General identified a number of problems being encountered by the Crown corporations – many of these are similar to the problems already identified at the department level. Crown corporations were having difficulty attracting and retaining qualified accounting and financial management personnel; there was no internal audit function within any of the Crown corporations; the individuals appointed to the boards of directors did not have the required training and expertise to effectively oversee management of the corporations; and the corporations were not filing financial statements and annual reports on a timely basis. In summary:

⁴³ Looking Back and Moving Forward: Auditor General of Canada's First Report to the Second Legislative Assembly of Nunavut, Retrieved on April 11, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200405nla_e.html, page 14.

The nature of the problems discussed tends to compound each other. Purely for illustration, if there is a significant problem with financial management and control in a Crown corporation, who would find it? There are problems recruiting staff with appropriate technical training. It is possible that management may not find the problem. Boards of directors may not have the training or current information needed to catch problems through their oversight. There is no internal audit. All of this point out that there are significant issues in the overall structure and management of Crown corporations.⁴⁴

To illustrate the risk to the Government of Nunavut of inadequate controls at Crown corporations, the Auditor General focused on specific problems identified at two of the corporations – Qulliq Energy Corporation (QEC) and Nunavut Business Credit Corporation (BCC). QEC did not come into existence on April 1, 1999. Instead the governments of the Northwest Territories and Nunavut agreed to share responsibility for power generation until April 1, 2001 through the NWT Power Corporation (NTPC). On this date, NTPC assets were divided and Nunavut employees transferred to the new corporation. The GN decided to locate the head office of QEC in Baker Lake consistent with its decentralization policy. However, the capacity of local staff was not assessed. In addition, the majority of senior managers continued to live in Iqaluit resulting in less than optimal training opportunities for local staff and monitoring of head office functions. In 2004, the following serious financial issues were identified by the OAG⁴⁵:

- Significant losses since division from the NWT Power Corporation and a failure to meet income targets established in annual corporate plans.

⁴⁴ Looking Back and Moving Forward: Auditor General of Canada's First Report to the Second Legislative Assembly of Nunavut, Retrieved on April 11, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200405nla_e.html, page 16.

⁴⁵ Looking Back and Moving Forward: Auditor General of Canada's First Report to the Second Legislative Assembly of Nunavut, Retrieved on April 11, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200405nla_e.html, Chapter 6.

- Failure to set utility rates at a sufficient level to cover expenses resulting in financial losses.
- Inadequate management of accounts receivable resulting in increased short term borrowings and bad debt expense.
- A lack of experienced accountants resulting in significant amounts spent on consultant fees.
- Incorrect billings to customers.
- Inadequate management monitoring of spending.
- Inadequate financial management by senior managers resulting in bank reconciliations not prepared in 2001/02; purchases and payments not recorded until months after they occurred; account reconciliations not prepared; inaccurate recording of expenses; monthly accounting results not prepared or reviewed; and incorrect periodic financial reports.

The Auditor General has estimated the above financial issues cost QEC and the Government of Nunavut approximately \$18 million. Included in this total is \$670,000 paid to managers in performance bonuses for the first two years of operations.⁴⁶

By Nunavut standards, QEC is a fairly big corporation with significant assets and revenue. In contrast the Nunavut Business Credit Corporation (BCC) is a small corporation with only three employees. Establishing basic financial management controls in this corporation is difficult. Similar to QEC, BCC operations were handled by NWT Business Credit Corporation for its first year. In 2001, responsibility for BCC was

⁴⁶ Looking Back and Moving Forward: Auditor General of Canada's First Report to the Second Legislative Assembly of Nunavut, Retrieved on April 11, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200405nla_e.html, page 27.

handled by the Department of Economic Development and Transportation (formerly Department of Sustainable Development) before it was assigned to a headquarters office in Cape Dorset. The scope of operations of BCC is smaller than most Crown corporations in Nunavut; however, on March 31, 2002, the corporation had a loan portfolio of \$7.9 million and received annual payments \$1.4 million in principal and interest. The OAG identified several financial management weaknesses within this organization. These included the lack of a proper accounting system – employees were using an Excel spreadsheet to monitor loans; out of six loans approved in one year, only two were approved properly; inadequate monitoring of the loans portfolio; and financial statements not being prepared in a timely manner.⁴⁷

⁴⁷ Looking Back and Moving Forward: Auditor General of Canada's First Report to the Second Legislative Assembly of Nunavut, Retrieved on April 11, 2005 from http://www.oag-bvg.gc.ca/domino/reports.nsf/html/200405nla_e.html, page 29.

Essential Role of the GN

The main purpose of summarizing the findings from the report evaluating the decentralization process of the GN and the findings of the OAG since the creation of Nunavut is to highlight the extent of the financial management problems that exist within the GN and its Crown corporations. It can be difficult for accounting and financial management professionals from southern Canada to understand how these problems can possibly exist in a government's operations today. The mismanagement of public funds directly impacts the people of Nunavut as they are totally dependent on the government for their economic and social well being.

The level of this dependence becomes apparent in a report prepared by the Sivummut Economic Development Strategy Group in 2001, *Nunavut Economic Development Strategy – Building a Foundation for the Future*. The purpose of this report was to evaluate the economic situation in Nunavut at the time and identify prospects for the future. The Government of Nunavut was identified as the key economic driver. Over 50% of jobs in the wage economy were within the public sector. Approximately \$800 million was being spent by the government on programs, services and building infrastructure annually. The hope was government spending and employment would stimulate the private sector resulting in economic growth and diversification.

The report identified a number of sectors that had potential for economic growth. These included sealing, tourism, commercial fishery, harvesting, arts and small businesses. Also identified was the fact that future development in these sectors would be realized only with significant investment by government. Developing the tourism

industry would require construction of visitor centres, hotels and transportation links. Processing and exporting of seafood and animal products would take place after the construction of processing plants and promotion of these products outside of Nunavut. The arts economy required heritage centres and galleries where local artists could display their work to potential buyers.

General comments were also made concerning the need for the government to develop the physical, human, social and natural capital of Nunavut. Crowded and substandard housing is a serious problem. In the majority of communities, significant improvements are needed to water and sewage systems, schools, healthcare facilities and communication systems such as the internet. Roads, marine facilities airport and electrical generation systems all need major upgrades. The level of literacy, education and vocational skills needs to be improved in order for Nunavummiut to participate in the wage economy. To achieve this, investment in training programs and facilities are required. In summary, *“the Nunavut economy is far behind other jurisdictions in Canada. Nunavut still has to put all the economic fundamentals in place before it can have a thriving, diverse business and community.”*⁴⁸

From the conclusions reached in the Sivummut report, it can be seen that government spending is critical to the well-being of the people of Nunavut. Losing money through mismanagement can have direct impact on the residents. For example, the \$670,000 in performance bonuses paid to the managers of Qulliq Energy Corporation after incurring \$13 million in losses could have been spent to construct public houses for three families.

⁴⁸ The Sivummut Economic Development Strategy Group, *Nunavut Economic Development Strategy – Building a Foundation for the Future*, June 2003, page vi.

As stated in the report, “*in Nunavut we must work to achieve the most economic benefit from every dollar spent by the government.*”⁴⁹

⁴⁹ The Sivummut Economic Development Strategy Group, *Nunavut Economic Development Strategy – Building a Foundation for the Future*, June 2003, page 13.

Increased Likelihood for Fraud, Material Error and Misstatement

Given the serious control weaknesses that exist within the Government of Nunavut and its inability to implement Level 2 essential controls, the likelihood of fraud, error and misstatements is high. From the previous section, it can be seen that the Government of Nunavut, its Crown corporations and agencies have experienced significant errors and misstatements in the government's first six years. It has also been noted that the governments in the North have not been immune to incidents of fraud by its employees. A number of incidents have been reported in each territory in the past five years. The cases range from one employee using corporate funds to pay \$55,000 in personal expenses to another writing fraudulent cheques totalling \$72,000. Examples include:

Table 4

Example of Fraud in the Northern Governments

Organization	Date	Fraudulent Activity
The Qikiqaaluk Corporation – Nunavut ⁵⁰	June 2001	Personal expenses of more than \$55,000 paid using corporate funds.
Nunavut Association of Municipalities ⁵¹	November 2000	Employee defrauded government of more than \$44,000.
Kitikmeot Regional Health and Social Services ⁵²	May 2002	Employee charged with fraud exceeding \$5,000 and one count of false entries.
Fort Smith District Education Authority – NWT ⁵³	July 2004	Employee charged with theft over \$5,000 and fraud over

⁵⁰ Retrieved from Nunatsiaq News Archives on April 26, 2005 from http://www.nunatsiaq.com/archives/nunavut010630/nvt10615_04.html

⁵¹ Retrieved from Nunatsiaq News Archives on April 26, 2005 from http://www.nunatsiaq.com/archives/nunavut001130/nvt21117_16.html

⁵² Retrieved from Nunatsiaq News Archives on April 26, 2005 from http://www.nunatsiaq.com/archives/nunavut020510/news/nunavut/20510_00.html

		\$5,000.
Commission Scholaire Education Francophone de Division – Yellowknife – NWT ⁵⁴	February 2005	Charged with embezzling \$72,000.
Yellowknife Dene Housing Society - NWT ⁵⁵	February 2002	Employee charged with theft over \$5,000, breach of trust and uttering forged documents.

To determine whether the Government of Nunavut is more susceptible to fraud given decentralized structure, environmental factors that influence fraud will be presented along with known “red flags” associated with fraudulent activity. The GN’s structure and history will then be evaluated in relation to these factors. Although the discussion that follows is specifically related to fraud, the policies and procedures designed to prevent fraud will also prevent material errors and misstatements from occurring and/or assist in detection after they have occurred.

When determining how susceptible an organization is to fraudulent activity, it is first necessary to understand what motivates a person to commit fraud. A number of factors are known to contribute to the commission of fraudulent activities. These include:

- Economic motivation – fraudsters often have financial problems they feel can only be solved through the gains of fraudulent activity.
- Greed – the desire for more than current occupational circumstance can provide.

⁵³ Retrieved from News North Archives on May 2, 2005 from http://www.nnsl.com/frames/newspapers/2004-07/jul26_04dea.html

⁵⁴ Retrieved from News North Archives on May 2, 2005 from http://www.nnsl.com/frames/newspapers/2005-02/feb2_05robYK.html

⁵⁵ Retrieved from News North Archives on May 2, 2005 from http://www.nnsl.com/frames/newspapers/2002-02/feb15_02crt.html

- Prestige or recognition – motivated by jealousy, pride, anger, these fraudsters believe they are entitled to more prestige or recognition and also that they are smart enough to obtain that prestige and recognition without being caught.
- Moral superiority – these fraudsters believe their cause or values are morally superior to those of their victims.⁵⁶

Fraudsters who are motivated by the above factors will prosper in organizations characterized by poor management, weak internal controls and unclear organizational structure and policies.

To prevent fraud from occurring, management needs to foster an environment in which ethical behaviour and employees are held in high regard. If managers use fraudulent or unethical means to gain benefits for the organization or themselves, employees are likely to conclude that this type of behaviour is acceptable and rationalize similar behaviour of their own. An organization that is characterized by excessive rules and regulations; focuses on short term results; and, ill treats its employees will create disgruntled employees who are more likely to undertake fraudulent activities.⁵⁷

The design of an organization's structure, systems, policies and procedures can play a major role in preventing or encouraging fraudulent activity. Organizations less likely to be a victim of fraudulent activity by its employees are characterized by the following:

- clear lines of authority and responsibility
- adequate levels of management monitoring and review

⁵⁶ Asian Organization of Supreme Audit Intelligence, *Understanding Fraud and Corruption*, Retrieved on May 7, 2005 from http://www.asosai.org/guidelines/guide_un_st_fru_corruption.htm

⁵⁷ Asian Organization of Supreme Audit Intelligence, *Understanding Fraud and Corruption*, Retrieved on May 7, 2005 from http://www.asosai.org/guidelines/guide_un_st_fru_corruption.htm

- proper procedures for transaction authorization
- adequate levels of duty segregation
- effective internal control procedures and policies
- frequent review of operations by internal and external audit
- clear policies on document and records format and retention
- control over computer usage and applications
- clear policies on ethics, conflict of interest guidelines and codes of conduct that are communicated effectively and regularly to employees
- violators of the organization's code of ethics, conflict of interest guidelines or code of conduct are disciplined appropriately
- human resource hiring practices that focus on attracting and retaining highly qualified personnel⁵⁸

The presence of the above environmental factors does not guarantee that fraud will occur within an organization. However, they do indicate a higher likelihood of occurrence. If any of these factors exist within an organization and management is not able to address the underlying causes it should learn to identify “red flags” or indicators of the presence of fraud. Red flags of fraud can be classified by business or employee. Business red flags are associated with the overall environment, structure and culture of an organization. They result from the inability of management to address the environmental factors outlined above. Specific examples of business red flags include lack of a formal

⁵⁸ Northwestern State University, *Fraud Awareness*, Retrieved on May 7, 2005 from <http://www.nsula.edu/internalaudit/fraudredflags.htm>

process for approving journal entries, reconciliations not completed on a timely basis, too much trust in the integrity of employees, lack of controls over access to computer system, high employee turnover and cash and inventory shortages.⁵⁹

Personal red flags deal with the characteristics of a potential fraudster. Changes have occurred in an employee's lifestyle and/or behaviour that may or may not be explainable. The employee appears to be living beyond his/her means. He/she is buying expensive cars, jewellery, clothes, etc. The employee may be attempting to borrow money from co-workers and/or creditors are calling or showing up at the workplace. The employee is refusing to take vacation time, turning down promotions and working excessive overtime to prevent the fraudulent activity being discovered. The employee may be dealing with marital, dependency or health problems; or, as stated earlier, the employee may simply believe he/she is entitled to the ill gotten gains due to greed, desire for prestige/recognition or feelings they are underappreciated. See Appendix F for a detailed list of business and personal red flags.⁶⁰

Government of Nunavut's Environment

Based on the report *Building Nunavut through Decentralization* and the reports prepared by the Auditor General of Canada, we can see a number of the environmental factors of fraud listed above in the decentralized operations of the government. The

⁵⁹ Northwestern State University, *Fraud Awareness*, , Retrieved on May 7, 2005 from <http://www.nsula.edu/internalaudit/fraudredflags.htm>

⁶⁰ Northwestern State University, *Fraud Awareness*, , Retrieved on May 7, 2005 from <http://www.nsula.edu/internalaudit/fraudredflags.htm>

following table summarizes the environmental factors that have been noted in the operating environment of the GN.

Table 5

Fraud Factors in GN Environment

Environmental Factor	GN Position
Unclear lines of authority and responsibility.	<p>The GN focused on setting up the offices/departments in the communities without adequate consideration for the role these offices would play in government operations and assignment of responsibilities.</p> <p>Clear goals and objectives were not set for Crown corporations.</p>
Ineffective human resource hiring practices that focus on attracting and retaining highly qualified personnel.	<p>The GN did not adequately assess the qualifications of local residents resulting in high vacancy rates.</p> <p>Employees were not given sufficient information, orientation and training to do their jobs.</p> <p>The GN did not have enough qualified accountants and financial managers. It did not have an adequate training program to address this shortage.</p> <p>Employees were not aware or following financial rules.</p>
Inadequate levels of management and monitoring review.	<p>Significant communication problems between head office and community staff were encountered.</p> <p>Managers were focused on getting offices up and running and could not concentrate on service/program delivery.</p> <p>Effective management reviews or reconciliations were not being completed.</p> <p>Individuals appointed to Crown corporation Boards of Directors did not have the required training and/or expertise to</p>

	effectively oversee management of corporations.
Ineffective internal controls and practices.	<p>The GN has still not established essential financial controls to control spending and protect assets.</p> <p>Accounting rules were not up to date.</p> <p>Government was not collecting all money owed to it.</p> <p>Internal control weaknesses led to the qualification of audit opinion.</p> <p>Payment of expenses without adequate source documentation and inadequate controls over inventories.</p> <p>Problems with controls at the government's Crown corporations becoming more prevalent.</p>
Unclear policies on document and records format and retention	<p>Departments had difficulty locating source documentation and signed copies of revenue agreements.</p> <p>Lack of proper accounting systems.</p>
Inadequate levels of duty segregation.	The number of vacancies in regional offices has led to less than adequate segregation of duties.
Inadequate levels of transaction and spending authorization.	<p>A number of departments spent more than authorized and asked the Legislative Assembly to approve spending after the money has already been spent.</p> <p>Complex payment authorization structure that led to employees approving payments over their limits.</p>

It can be concluded that the risk of fraudulent activity, significant error and misstatement in the Government of Nunavut's operations is quite high. The lack of basic fundamental financial controls, qualified accountants and financial management employees and the decentralized structure of government operations have created an

environment in which factors associated with the occurrence of fraudulent activity are readily apparent. The following sections contain recommendations on how the Government of Nunavut can improve and strengthen financial controls in its operations.

Establishing Control

Establishing basic and essential controls in the decentralized structure of the Government of Nunavut will not be an easy task. One has to remember that what might work in southern Canada will not necessarily work in Nunavut. For example, in many departmental, corporate and agency offices there are not enough employees to adequately segregate duties. How do you segregate duties within the Nunavut Business Credit Corporation when there are only three employees? In addition, employees that are hired by the government are often under qualified for their positions. The idea is to train these employees so they meet the qualifications in the future. Attracting and retaining employees in communities in Nunavut is also difficult resulting in high number of vacancies and employee turnover.

Developing and implementing an enterprise risk management strategy for the Government of Nunavut would assist in identifying risks facing departments, agencies and Crown corporations. Included would be environmental, strategic, operational and financial risks. The problem is however, the GN is not at a stage where they could design and implement such measures. ⁶¹In 2001, only 11% of organizations surveyed by the Institute of Internal Auditor Research Foundation indicated they had fully integrated risk management into their operations. In April 2003, federal government departments were still at the initial stages of developing the capacity to implement enterprise risk management. ⁶²The amount of resources, both financial and human, is a hurdle the GN would have to overcome if they considered an integrated risk management strategy. In

⁶¹ Report of the Auditor General of Canada to the House of Commons – Chapter 1 Integrated Risk Management, April 2003, page 9

⁶² Report of the Auditor General of Canada to the House of Commons – Chapter 1 Integrated Risk Management, April 2003, page 9

her 2004 report to the Legislative Assembly, the Auditor General had concerns whether or not the government has the resources to implement basic controls. The knowledge, commitment and support required to implement a successful enterprise risk management strategy is beyond the capacity of the departments, corporations and agencies of the Government of Nunavut.

Before considering specific recommendations on how the Government of Nunavut could improve financial controls within its entities, general information on establishing effective internal controls is presented.

Prevention and Detection – Systems and Controls

The first step in establishing basic financial controls in any organization is to evaluate the current systems in place and identify risk areas. The focus should be on identifying areas where control weaknesses exist and whether these weaknesses could result in material errors, misstatement or loss to operations. Examples of control weaknesses include inadequate duty segregation and lack of management monitoring of transactions.

Once a risk assessment has taken place and weaknesses identified, it is then necessary for management to develop processes and procedures to mitigate the potential risks associated with those weaknesses. These processes and procedures are internal controls. The objective is to design an internal control system to monitor spending, protect assets, prevent fraud and detect material errors, misstatements and fraudulent activity. Internal controls function at all levels of the organization. They include activities such as reconciliations, segregation of duties, payment authorization and security of

assets.⁶³ To be effective, internal control systems should take into account the environment in which they are to operate.

Internal controls are most effective if they occur prior to a transaction being finalized. If an organization is small or has difficulty attracting and retaining qualified employees, this may be difficult to achieve. It may be necessary for some entities to establish a system of compensating controls when effective internal controls cannot be implemented. Compensating controls refer to activities that take place after transactions have occurred or post audit.⁶⁴ They are not as effective as internal controls in preventing errors, fraud and misstatements but they can be used for detection.

An example of a compensating control that can be used when optimal segregation of duties is not possible is management review of customized transaction reports. More specifically, if a manager has a staff member who can perform all key activities associated with a particular transaction, then on a periodic basis, a report detailing those transactions should be prepared and reviewed for incorrect and improper transactions. For example, if an employee is responsible for receiving, processing and approving mortgage applications; entering data into the system; communicating with clients; and processing funds advances, a manager should periodically select a sample of transactions and agree the details to source documentation. Other examples of compensating controls are surprise cash and inventory counts and rigorous budget variance analysis.⁶⁵

⁶³ University of Colorado, *Internal Controls*, Retrieved on May 7, 2005 from http://www.cu.edu/security/ps/INTERNAL_CONTROLS.HTML

⁶⁴ University of Colorado, *Internal Controls*, Retrieved on May 7, 2005 from http://www.cu.edu/security/ps/INTERNAL_CONTROLS.HTML

⁶⁵ University of Colorado, *Internal Controls*, Retrieved on May 7, 2005 from http://www.cu.edu/security/ps/INTERNAL_CONTROLS.HTML

Transactional analysis and continuous monitoring can also be used to detect asset misappropriation and/or fraudulent disbursements. Transactional analysis refers to the process of identifying the types of fraud that could take place in an organization and indicators that this fraud has occurred. Once the indicators have been identified, the transaction analysis is completed using computer software and data from the organization's information system.⁶⁶ Transaction analysis should be carried out as close to initial processing time as possible and on a continuous basis. Any exceptions should be investigated.

For example, an organization has determined there are weaknesses within its payroll system and it is possible for an employee to process fraudulent cheques. If there are only 26 pay periods in a year and all employees pay source deductions then management may decide to test payroll runs against these two parameters. That is, download payroll data into a software package, such as Excel, and filter the data so that the names of employees who have been paid more than once a pay period or have net pay equal to gross pay are identified. Another example is comparing the addresses of employees to the addresses of vendors.

Prevention – Positive Work Environment

Studies have shown that employees who are satisfied with their job and work environment are less likely to commit fraud.⁶⁷ Creating a positive work environment through collaborative decision making, team work, recognition and reward programs will

⁶⁶ ACL Business Assurance Analytics, *Fraud Detection*, Retrieved on May 8, 2005 from http://www.acl.com/pdfs/Executive_Brief_Fraud_Detection.pdf

⁶⁷ Douglas E. Ziegenfuss, *Fraud in Local Governments*, Journal of Forensic Accounting, 1524-5586/Vol.I(2000), pp 103-124

increase employee morale and decrease the likelihood that fraud will occur.

Management's actions and attitudes can have an important impact on an organization's work environment. A culture of honesty and integrity will only be achieved if management sets the correct "tone at the top" and leads by example. Managers who are dishonest and unethical in their treatments of customers, suppliers or employees should not be surprised if they see the same behaviour from their employees.⁶⁸

To create a positive work environment, management must clearly communicate to employees which behaviours are acceptable and which are not. This can be accomplished through Codes of Conduct, Codes of Ethics, Conflicts of Interest Guidelines and policies on fraud. New employees should receive copies of these documents and be required to acknowledge in writing that they have read and understood the contents of each. All employees should be required to re-read the policies on an annual basis and confirm they understand what is expected of them, they have complied with the policy provisions and they are not aware of any violations. In addition, training on ethics should be provided to employees to clearly communicate the types of behaviour it considers unacceptable.⁶⁹

The previous discussion relates to an organization's control environment. *"The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity's people; management's philosophy and operating style; the way management assigns authority and responsibility, and*

⁶⁸ Audit Committee Institute – Canada, *Accountability E-lert*, Retrieved on May 8, 2005 from <http://www.kpmg.ca/unitymail/accountability/en/issues/elert2004-004.html>

⁶⁹ Audit Committee Institute – Canada, *Accountability E-lert*, Retrieved on May 8, 2005 from <http://www.kpmg.ca/unitymail/accountability/en/issues/elert2004-004.html>

organizes and develops its people.”⁷⁰ From this statement it can be seen that establishing an effective internal control system involves more than implementing new rules. The attitudes of both management and employees and the work environment they create will determine whether internal controls will operate effectively.

Prevention – Education, Awareness and Consequences

Many people mistakenly believe fraud is committed by employees who have not been with the organization long and that fraudsters are only interested in misappropriating large sums of money or assets of high value. They never suspect the employee who has been with the organization for years, never takes a vacation and hardly calls in sick. Increasing employees’ awareness of fraud and dispelling these myths may improve an organization’s chances of fraud detection.

Management should provide training to its employees on what motivates a person to commit fraud, who is more likely to commit fraud and how to identify indicators or red flags associated with fraudulent activity. It should also establish policies, procedures and mechanisms for employees to report irregularities and/or suspicious activities to the appropriate personnel. Mechanisms that allow employees to report suspicions anonymously are likely to be more successful. Employees should be encouraged to report suspicions without being concerned for their jobs or retaliation.⁷¹

Training employees to recognize red flags of fraud should not be limited to fraudulent acts by people within an organization. Employees should be trained to

⁷⁰ The Committee of Sponsoring Organizations of the Treadway Commission, *Internal Control – Integrated Framework – Executive Summary*, Retrieved on May 8, 2005 from http://www.coso.org/publications/executive_summary_integrated_framework.htm

⁷¹ Alan G. Hevesi, *Red Flags for Fraud*, Retrieved on May 8, 2005 from http://www.osc.state.ny.us/localgov/muni/red_flags_fraud.pdf

recognize and report suspicious fraudulent activities involving persons external to the organization, such as, suppliers and customers. For example, suppliers may attempt to overcharge an organization for supplies by adjusting contract prices, colluding with other vendors or delivering materials of lower quality than what was specified in contracts. Suppliers may also try to influence employees' contracting and purchasing decisions by offering bribes, kickbacks and/or secret commissions.

Organizations must deal with fraudsters in a manner that will act as a deterrent to others. There must be consequences associated with employee fraud and all employees must be treated the same regardless of their positions. Management should communicate clearly to its employees that fraudulent activity will not be tolerated and be prepared to take actions that will reduce the likelihood of future occurrences.⁷²

Balancing Benefits with Cost

Internal controls systems are designed to allow an organization to achieve its objectives while protecting assets from misappropriation. They promote reliable financial reporting, efficiency, effective program delivery and compliance with applicable laws and regulations. When designing an internal control system, managers must keep in mind that the costs of these systems cannot outweigh the benefits. That is, controls cannot be so restrictive they prevent employees from doing their job or cost more to implement than the assets they protect.

Once internal controls have been implemented in an organization it is important for management to monitor the controls on a regular basis. Monitoring is required to

⁷² Northwestern State University, *Minimize the Risk of Fraud*, Retrieved on May 7, 2005 from <http://www.nsula.edu/internalaudit/fraudminimize.htm>

ensure the controls are operating effectively and achieving their objectives. It is also important to ensure employees are following control procedures at all times.

Possible Solutions for the Government of Nunavut – Short Term

Risk Analysis

In the short term, it is essential the Government of Nunavut carry out a risk assessment in each of its entities to identify internal control weaknesses. The focus should be on weaknesses that could result in material errors, misstatement or loss. If necessary, external consultants could be engaged to assist management in their risk analysis activities.

Design an Internal Control System

Once the risk assessment is complete, the next step is to design internal controls to address control weaknesses identified. External consultants could assist managers in developing an effective internal control system by providing information on best practices and then assisting them to tailor the system to reflect realities of the GN environment. For entities who cannot implement adequate controls due to inadequate numbers of employees or a shortage of qualified employees, managers should develop custom reports for use in transactional analysis.

Transaction analysis could be used by finance staff within the various government organizations to identify transactions that are outside normal processing rules. For example, purchases made without a corresponding purchase order or contract number. The key is determining how an error/misstatement can occur and/or fraud perpetrated and then manipulating the system to detect occurrences. The majority of GN entities are using the same information system, Free Balance, to process financial and accounting

transactions. Transaction analysis for fraud and asset misappropriation could be carried out on a government wide basis by the GN's internal audit department.

The Government of Nunavut can call upon the boards of its Crown corporations to assist in establishing basic financial controls in those organizations. It is the responsibility of the audit committees to evaluate management's internal control systems and risk assessment processes. These committees should have open and candid dialogues with its auditors to identify where control weaknesses exist and how they can be addressed.

Establishing effective internal controls within GN operations will improve overall financial management, accountability and promote better overall management of the public purse. Program delivery should be more effective, efficient and responsive to the needs of the people of Nunavut. In addition, Nunavummiut should receive more value from government expenditures.

Sarbanes-Oxley Act

The fundamental principles of the United States' Sarbanes Oxley Act (SOX) could be used to guide the risk assessment activities of the Government of Nunavut. The provisions of this Act require management of public organizations to undertake a comprehensive evaluation of its internal control system and report the results of the evaluation to the audit committee of its Board of Directors. The evaluation must be supported with documentation, evidence and an opinion from the organization's auditors on the effectiveness of the controls and the assessment undertaken by management. Management is responsible for designing an internal control system that reduces the

potential for errors, misstatements and fraud. The Board is responsible for ensuring management has carried out its responsibilities.⁷³

Legislation similar to SOX does not yet exist in Canada; however, its principles can be used to guide internal control assessments and allow management to obtain a better understanding of the risks facing an organization. The Government of Nunavut should use the provisions of SOX to guide their risk assessment activities. Requiring management to design, assess and report on the effectiveness of internal controls on a regular basis will help ensure government resources are protected from misappropriation and provide reasonable assurance that financial reports are reliable. In addition, it may also be possible for government entities to implement integrated risk management into their operations in the future.

Training and Awareness

Once internal controls systems have been designed, it will be necessary for managers within the Government of Nunavut to educate and train employees on their responsibilities under the new systems. Management should ensure employees understand the need for the controls and what it is they are trying to accomplish. For example, simply requiring a finance officer to sign off as a payment authority on an invoice is not sufficient if he/she does not ensure the initial purchase was authorized appropriately, the invoice amount and terms are in compliance with a purchase order/contract and the goods have actually been received.

⁷³ PriceWaterhouseCoopers, *Governance, Risk and Compliance (GRC) in the Utilities Industry: How an Integrated GRC Approach can Drive Value and Enhance Performance*, Retrieved on June 17, 2005 from <http://www.pwc.com/ca/eng/about/main/cg-r.html>

Promoting fraud awareness will also contribute to better financial management. By providing employees with knowledge on motivators and red flags for fraud, they should begin to question transactions and/or relationships that are outside the normal course of business or suspicious in some manner. This includes transactions and relationships with individuals outside government entities as well. A means for reporting suspicions should also be established. Employees should feel free to report suspicious activities without fear of retaliation. In addition, the GN should respond to fraudulent activity by employees in a manner that will act as a deterrent to others.

Positive Work Environment

As stated above, an important part of improving financial management and the overall control environment is promoting a positive work environment. To achieve this, managers in the Government of Nunavut will have to ensure employees clearly understand which behaviours are acceptable and which are not. These expectations should be documented in a Code of Ethics, Conflict of Interest Guidelines and policies on fraudulent behaviour.

Possible Solutions for the Government of Nunavut – Medium Term

Changing Structure and Attitudes

Given the highly decentralized structure of the Government of Nunavut, establishing effective internal controls, promoting positive work environments, and setting high ethical standards within government agencies may not be sufficient to achieve good financial management. The GN is still having difficulty attracting qualified and experienced accounting and financial management employees to work in isolated communities in Nunavut. In 2004, approximately 20% of government jobs in Nunavut were vacant. In addition, the finance and administration department was only at 75% capacity (See Appendix E for further information).

Decentralization was the principle upon which the Government of Nunavut was founded. As illustrated earlier, the idea was to improve Inuit standard of life by increasing employment opportunities and access to government programs. However, as the figures in Appendix E show, Inuit participation in the public service has not increased significantly since 2001. The government did not adequately assess the qualification and skill levels of its people in communities prior to setting up government offices and, as a result, residents did not qualify for many of the jobs.⁷⁴ In addition, poor controls and weak financial management had led to costly errors and wasted resources.

The Government of Nunavut has many laudable ideas on what the nature of government should be for the people of the Territory. The goals of decentralization and incorporation of Inuit values onto the structure of government are highly important. Yet

⁷⁴ Millenium Partners, *Building Nunavut Through Decentralization*, February 2002, page 12.

there are some practical issues that need to be taken into account to make sure that, in the long-term, these policies continue to work within the framework of the technical needs of a senior level of Government in Canada. A key one is to harmonize the decentralization thrust with the realities of technical capacity for staff. As this paper notes, getting sufficient numbers of technically trained accountants and financial managers into remote areas is difficult and training local people is a longer-term challenge. Thus a practical approach could be to swap some decentralized technical jobs in the regions for those that may be better suited to local staff, and consolidate the scarce financial management and accounting skills into one unit that serves all of the government. This would require some changes to systems and reporting lines but could maximize the utility of the skills that are currently available. Consistent with this, could be a realistic examination of the longer-term skills needs for financial managers and accountants and the development of a locally developed training program to build these skill sets among Nunavummiut.

To build for the future, the Government could specify clearly what Inuit values it sees as being essential to build into the administrative structures. It might be useful, for example to divide the challenge into two parts, the first dealing with program policy development that allows these important values to be incorporated into the programming of government services. The second deals with necessary administration and controls. These will have to be cognisant of the changing requirements for seamless financial management and control structures that build on the private sector's recent experience following Enron. They will have to be consistent with the GN being a senior level of Government in Canada, responsible to its people and to the fenders.

Conclusion

The economic and social well-being of Nunavummiut is heavily dependent on government spending. Loss of funds through error, mismanagement or fraud can have a direct impact on individuals' lives. To prevent this, the Government of Nunavut has to take steps to establish an internal control system that will control spending, protect assets and detect fraud, material errors and misstatements. An effective internal control system should promote good financial management, improved accountability and better overall management of the public purse.

It is also necessary for the Government of Nunavut to harmonize its goals of decentralization with the technical capabilities of its staff. A decentralized government structure will only be effective if there are qualified employees to work in the various departments and offices. In addition, Inuit traditions and values have to be balanced with good financial stewardship and the need to ensure public monies are properly spent and protected.