

# Strong, publicly-administered financial controls for a strong economy

A submission to the House of Commons Standing Committee on Finance

Association of Canadian Financial Officers  
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## Introduction

The Association of Canadian Financial Officers represents the accounting and financial management professionals in the public service. As such, we have a unique insight into steps the government could take not only to ensure economic growth, but also to protect the Canadian financial management framework.

Over the past few months, ACFO and the hardworking public servants we represent have grown concerned about the vulnerable position in which the government has put its financial management framework. Several factors have converged to create a perfect storm for fraud: relaxed financial controls, insufficient resources to oversee financial management and inadequate protections for those who might witness wrongdoing and wish to come forward.

The government is leaving itself unnecessarily exposed. Moreover, it is putting its own resources and the system in place to manage Canadians' tax dollars at risk.

To address these risks, the Association of Canadian Financial Officers is recommending:

- that Treasury Board rescind the blanket approvals allowing Public Services and Procurement Canada to bypass federal financial rules in the event of Phoenix emergencies;
- that the government invest in increased financial management capacity and that this investment take the form of professional public service jobs; and
- that the government immediately implement the improvements to the *Public Servants Disclosure Protection Act* outlined in the Standing Committee on Government Operations and Estimates' report on whistleblower protection of last year.

We are sure that the Committee will hear many excellent recommendations for how to ensure the competitiveness of Canadian businesses and equitable, sustainable growth for all Canadians in the years to come. However, the full benefits of these recommendations can only truly be felt if Canada can rely on sustainable, top-quality public services supported by strong financial controls.

# **Recommendation 1: Stop blanket approvals allowing Public Services and Procurement Canada to bypass federal financial rules**

## **Context**

In spring of 2018, Treasury Board requested that all departments seek ministerial permission to bypass federal financial rules in the event of Phoenix emergencies. Departments were asked to surrender their financial authority to approve salary spending to Public Services and Procurement Canada (PSPC). Specifically, this request would circumvent the rule that allows only managers with delegated authority to release payments.

This decision was met with immediate criticism from the Auditor General of Canada. When commenting on this decision in April, the Auditor General warned that this plan creates a “higher level of risk” of pay errors and unreliable financial information, and warned that it would create more labour and costs for his office.<sup>1</sup>

This concern was reiterated in the most recent Auditor General’s report, which included a note that because of the issues with Phoenix, his office could not rely on existing internal controls to audit pay expenses and had to examine a much larger sample of transactions than in previous years, resulting in additional effort and costs.

Other experts, including ACFO President Dany Richard, have raised concerns about this lack of oversight and due diligence, including the concern that this decision could result in not just errors and inaccuracies but outright fraud.

## **Recommendation**

ACFO recommends that Treasury Board rescind its request that departments to sign blanket approvals allowing it to bypass federal financial rules in the event of Phoenix emergencies and nullify any requests that have already been signed.

## **Rationale**

While it is important to address the payroll debacle and ensure that hardworking public servants are paid correctly and on-time, suspending internal financial controls will create more problems than it

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<sup>1</sup> <https://ipolitics.ca/2018/04/16/ag-says-bypassing-internal-controls-for-phoenix-emergencies-increases-audit-risks/>

solves. Financial controls are in place for a reason and bypassing them creates an increased and unnecessary risk of fraud.

Sadly, we know from experience that fraud happens whenever there is an opportunity to commit it. For confirmation of this fact, we need only look to the example of the sponsorship scandal investigated by the Gomery Commission just over a decade ago. At that time there were insufficient financial controls and insufficient resources to exert the controls that did exist. What resulted was one of the most notorious cases of corruption in recent Canadian history.

We do not want to see history repeating itself. Undermining the integrity of the federal financial management framework, the system of rules and procedures put in place to safeguard taxpayer money, cannot be the answer to fixing Phoenix.

## Recommendation 2: Invest in trained professionals to enforce existing controls

### Context

As previously mentioned, the government is making itself vulnerable to pay errors and fraud by circumventing financial controls. This vulnerability is exacerbated by the insufficient resources needed to handle both the ongoing Phoenix issues and increased oversight that relaxed financial controls would require.

For the past two years, financial control and management workers in the public service have been faced with the burden of addressing Phoenix-related errors and issues in addition to their usual workload. Since 2016, ACFO has conducted semi-annual surveys of its membership to determine the impact of Phoenix on their compensation, workload and well-being. Our spring 2018 survey found that over 60% of respondents indicated that they have dealt with an increased workload due to Phoenix, up 7% from the previous survey.<sup>2</sup>

In the past two years, Treasury Board and the Office of the Comptroller General have made a tremendous investment in professional development for financial management professionals, but there has not been a corresponding investment in resources.

While public sector growth over the past few years has remained relatively stagnant, the number of external government contracts awarded has grown, with the government spending approximately \$8 billion per year on external contracts.<sup>3</sup>

### Recommendation

ACFO recommends that the government invest in financial management to resolve Phoenix issues and maintain the integrity of the federal financial management framework. We recommend that this investment be in permanent, professional public service positions, not in piecemeal external contracts.

We further recommend that when external contracting is demonstrated to be necessary, these contractors should be bound by the same values and ethics, access to information provisions, employment equity standards, accountability and transparency standards and conditions as public servants.

<sup>2</sup> <https://www.acfo-acaf.com/2018/05/30/acfo-responds-to-the-auditor-generals-report-on-phoenix-and-releases-early-data-from-the-spring-2018-phoenix-survey/>

<sup>3</sup> <https://www.pipsc.ca/portal/page/portal/website/memberservices/representation/cb/pdfs/programmedtofail.en.pdf>

## Rationale

The government has urged departments to make exceptions to financial controls at a time when financial management professionals are overworked and departments are understaffed.

Departments are attempting to fill this gap with a patchwork of external accounting contracts, but the sole aim of these contractors is to secure their next contract and we have seen time and time again that they can be bought.

For examples of this we need only look to the United Kingdom and the example of the collapse of the Carillon company and the implication of 'Big Four' accounting firms.<sup>4</sup> We could also look closer to home, at the Canadians caught up in the Isle of Man tax fraud<sup>5</sup> or the irregular accounting uncovered during an audit of Independent Electricity System Operator (IESO), the government body that manages Ontario's electric-power system.<sup>6</sup>

External contractors are no substitute for qualified professionals with a sworn, vested interest in the wellbeing of the country and all Canadians. Public servants are a better choice from a security perspective, but also from an effectiveness perspective: Canada's public service was recently ranked the most effective in the world, with special praise for its fiscal and financial management professionals.<sup>7</sup>

To ensure the integrity of the financial management framework and to safeguard the taxpayer dollar, the government must invest their professional public service.

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<sup>4</sup> <https://www.independent.co.uk/news/business/news/carillion-collapse-latest-big-four-pwc-ey-kpmg-deloitte-a8352886.html>

<sup>5</sup> <http://www.cbc.ca/news/business/kpmg-offshore-sham-1.4006469>

<sup>6</sup> <https://www.theglobeandmail.com/canada/article-auditor-general-blasts-bogus-hydro-accounting-strategies-in-ontario/>

<sup>7</sup> <http://ottawacitizen.com/news/local-news/canadas-civil-service-is-worlds-most-effective-uk-report>

## Recommendation 3: Stronger protections for whistleblowers in the public service

### Context

In the spring of 2016, the House Standing Committee on Government Operations and Estimates conducted a review of *Public Servants Disclosure Protection Act*, hearing statements from whistleblower and integrity experts, federal departments, union representatives and whistleblowers themselves. The result of this review was a report with several significant recommendations for strengthening whistleblower protection in the federal public service.

The government has not acted on these recommendations and the protections for public servants remain unchanged. This is a significant concern because the insufficient protections of the current framework and the fear of reprisal can create a chilling effect on public servants' willingness to come forward and expose wrongdoing.

A recent report prepared for the Office of the Public Sector Integrity Commissioner of Canada (PSIC) surveying focus groups of federal public servants from Ottawa, Winnipeg, Regina, Quebec City, and Moncton, found that reprisal was consistently listed as a feared consequence of and deterrent to whistleblowing.<sup>8</sup>

The 2017 Public Service Employee Survey Results showed that, across the federal public service, only 43% of respondents felt free to initiate a formal recourse process (including a grievance, complaint or appeal) without fear of reprisal.<sup>9</sup>

### Recommendation

The government must immediately implement the recommendations made by the Standing Committee on Government Operations and Estimates for strengthening the *Public Servants Disclosure Protection Act*.

It should also commit to a review of the Act every five years, as whistleblower protection legislation is an emerging area of law and it is important that the government continually look at the protection regime to ensure those who do the right thing are rewarded, not punished.

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<sup>8</sup> [http://epe.lac-bac.gc.ca/100/200/301/pwgsc-tpsgc/por-ef/office\\_public\\_sector\\_integrity\\_commissioner/2016/2015-12-e/report.pdf](http://epe.lac-bac.gc.ca/100/200/301/pwgsc-tpsgc/por-ef/office_public_sector_integrity_commissioner/2016/2015-12-e/report.pdf)

<sup>9</sup> <http://www.tbs-sct.gc.ca/pses-saff/2017-2/results-resultats/bd-pm/00/org-eng.aspx>

## Rationale

Canadian public servants' concerns about reprisals are not unfounded. Research has shown that whistleblowers can suffer professional reprisals including demotion or dismissal, as well as isolation, character defamation, exclusion and harassment in their workplace.

However, due to their position as public servants, financial officers are uniquely placed to uncover mismanagement and fraud. One recent study found that in 32 percent of cases where fraud was uncovered, an employee had blown the whistle to provide information that facilitated an investigation. In cases where a senior or middle manager was implicated, that number increased to 41 percent. Ultimately the study concluded that whistleblowers were the single most effective way to uncover fraud.<sup>10</sup>

Financial control workers who uncover fraud or mismanagement must feel empowered to come forward and safe in the knowledge that they and their jobs will be protected. Strong protections for those who witness wrongdoing and choose to speak out are essential to the integrity of the government financial management framework, especially in a time when relaxed controls and insufficient staffing have rendered it vulnerable.

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<sup>10</sup> <http://www.kroll.com/CMSPages/GetAzureFile.aspx?path=~%5Cmedia%5Cfiles%5Cintelligence-center%5Cglobal-fraudreport-2013-2014-english.pdf&hash=a84e800f9068acd3e3ce664e95666772c22ccf4547183e750ecf984b2041343d>



## Conclusion

We have no doubt that the government has the best of intentions when it comes to safeguarding federal finances and working to resolve ongoing issues with Phoenix. They are in an extraordinarily difficult position. However, we believe that in attempting to smooth out existing complications, the government has all but ensured future financial tangles.

Canada needs strong, publicly administered financial controls and protection for those who witness wrongdoing and bring it into the light. By safeguarding the financial management framework, boosting capacity with professional public service positions and strengthening whistleblower protection legislation, we believe the government can create a strong foundation on which to build sustainable economic growth and ensure the competitiveness of Canadians going forward.