

Annex to the Statement of Management Responsibility Including  
Internal Control Over Financial Reporting of

Natural Sciences and Engineering Research Council of Canada

for Fiscal year 2016-17 (Unaudited)

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## 1. Introduction

This annex provides summary information on the measures taken by the Natural Sciences and Engineering Research Council of Canada (NSERC) to maintain an effective system of internal control over financial reporting (ICFR), including information on internal control management, assessment results and related action plans.

Detailed information on the department's authority, mandate and program activities can be found in the 2016-17 Departmental Results Report (to be published in the fall) and the 2017-18 [Departmental Plan](#).

## 2. Departmental system of internal control over financial reporting

### 2.1 Internal control management

NSERC recognizes the importance of senior management leadership in ensuring that staff at all levels understand their roles in maintaining effective systems of ICFR and are well equipped to exercise these responsibilities effectively. NSERC's focus is to ensure that risks are well managed through a responsive and risk-based control environment that enables continuous improvement and innovation. NSERC has a well-established governance and accountability structure to support the assessment and oversight of its system of internal control. Roles and responsibilities are as follows:

**President** - As accounting officer, the President is responsible for measures taken to maintain effective systems of internal control. The President is the chief executive officer of the Council and has supervision over and direction of the work and staff of the Council.

**Chief Financial Officer (CFO)** – Reports directly to the President and provides leadership for the coordination, coherence and focus on the design and maintenance of an effective and integrated system of ICFR, including its annual assessment.

**Executive VP and VPs** - Responsible for maintaining effective systems of internal control in the programs and areas for which they are responsible and contribute to the assessment of key risks and controls in their areas of responsibility.

**Chief Audit Executive (CAE)** – Reports directly to the President and provides independent and objective assurance through periodic internal audits and consulting activities that are instrumental to the organization's operations and its effectiveness with respect to ICFR (risk management, internal controls and governance processes).

**The Council** – Collectively represents the academic research and private sector R&D communities in natural sciences and engineering, as well as other stakeholder groups in the Canadian innovation system. The Council's main responsibilities are to set the strategy and high level policies for NSERC, and to review and evaluate performance.

**Executive Committee** – The Executive Committee exercises the functions of the Council between Council meetings and acts as a governance, human resources, risk management and oversight committee. The Executive Committee is composed of the President, the elected Vice-President and at least six other members (including the chairs of the standing committees) selected by the Council.

**Standing Committee** – Advise on specific policies and programs and oversee the work of selection committees. Distribute funds to the program elements and selection committees within their purview, the guidelines provided by Council and the funding envelope.

**Chief Information Officer (CIO)** - Lead departmental role for IT infrastructure and system applications and contributes to assessments of IT general, systems and application controls.

**Independent Audit Committee (IAC)** - Advises the president on the efficiency and effectiveness of NSERC's risk management, as well as its internal control and governance frameworks and processes. To this end, the committee oversees core areas of NSERC's management, control, accountability and reporting, in an integrated, risk-focused and systematic way. The IAC meets three times a year and is composed of the President, three independent external members and the chair of the NSERC Council.

A departmental internal control management framework, approved by the President and the CFO, is in place and includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management including roles and responsibilities for senior managers in their areas of responsibility for control management;
- Guidance to business process owners regarding impacts of changes on internal controls;
- List of key controls by business process requiring annual validation by the process owners; and,
- Monitoring and regular updates on a quarterly basis on internal control management plus assessment results and action plans to the President, CFO, management committees and IAC.

NSERC's control environment also includes a series of measures to equip its staff to manage risks well through raising awareness, providing appropriate training to enhance skills and expertise required. Key measures are comprised of:

- Guidance on Values and Ethics;
- NSERC's Code of Conduct;
- A strong governance structure;
- A dedicated function under the CFO on internal control;
- Documentation of main business processes and related key risk and control points to support the management and oversight of its system of ICFR;
- Annual performance agreements with clearly identified financial management responsibilities;
- Periodically updated delegated authorities matrix;
- ICFR Monitoring Strategy and Plan;
- Corporate Risk Profile that is updated annually;
- Integrated planning, risk management and reporting process; and
- Development of a three year risk-based internal audit plan.

## **2.2 Service arrangements relevant to financial statements**

NSERC relies on other organizations for the processing of certain transactions or the provision of information, which impacts its financial statements as follows:

## Common Arrangements

- Public Services and Procurement Canada centrally administers the payments of salaries and benefits, the procurement of some goods and services in accordance with NSERC's Delegation of Authority, and the provision of accommodation services;
- The Treasury Board of Canada Secretariat provides NSERC with information used to calculate various accruals and allowances, such as the accrued severance liability;
- The Department of Justice Canada provides legal advice and services with respect to potential liabilities and claims to which NSERC may be subject in the normal course of operations.

## Specific Arrangements

NSERC administers funds received from other federal government departments and agencies to issue grants, scholarships and related payments on their behalf. During the last year, NSERC administered \$12.1 million (\$19.8 million in 2015-16) in funds for grants and scholarships. These expenses are not reflected in NSERC's Statement of Operations but rather are recorded in the financial statements of the departments or agencies that provided the funds.

NSERC recovers administrative fees in some circumstances where a significant administrative burden is incurred by NSERC for the administration of certain funds on behalf of other federal government departments and agencies. These amounted to \$298 thousand during the year (\$429 thousand in 2015-16) and were netted against NSERC's operating expenses.

## 3. Departmental assessment results during fiscal year 2016-17

In 2016-17, the assessments of key financial controls were completed as per the ongoing risk-based monitoring program and a number of improvements were conducted on the internal ICFR Framework including the risk assessment tool and the resulting rotational ongoing monitoring strategy plan for the following years.

The key findings and significant adjustments required from the current year's assessment activities are summarized below.

**New or significantly amended key controls:** In the current year, there were no significantly amended key controls in existing processes which required a reassessment and there were no new processes to test for design and operating effectiveness.

**Ongoing monitoring plan:** As a result of updates to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) methodology, NSERC's internal control framework was adjusted to reflect the 2013 COSO framework. In addition, NSERC's framework was reviewed resulting in changes to the risk assessment tool, impacting the rotational ongoing monitoring plan for future years.

### All business processes were tested as intended:

- Financial Reporting – Period End: no deficiencies identified.

- The design assessment of the Payroll & Salaries processes and controls was completed following the implementation of the new salary management system (my GCHR) and new payroll processing system (Phoenix). The design is in line with the Treasury Board Secretariat (TBS)'s new draft Guidelines on Financial Management of Pay Administration. New controls were identified during the assessment. Testing of the controls will be initiated at least six months after the controls are implemented.
- Information Technology General Controls: the key controls of three systems (one financial system and two grant management systems) were tested. Eight areas for improvement were noted related to Access Management and Change Management. A management action plan has been put in place and presented to the Council's Independent Audit Committee.

## 4. NSERC's Action Plan

### 4.1 Progress during fiscal year 2016-17

During 2016-17, NSERC has completed all work related to its initial assessment cycle and has continued to bring significant improvements to its key financial controls. Below is a summary of the main progress achieved by NSERC based on the plans identified in previous years:

- All deficiencies identified in the Design & Operating Effectiveness testing of Entity Level Controls (ELCs) were remediated.
- Over 90% of the deficiencies identified in the Design and Operating Effectiveness testing of Information Technology General Controls (ITGCs) were remediated. Significant remediation efforts took place since most high and medium ITGCs deficiencies were remediated.
- All actions identified in the key financial controls assessment related to Purchases, Payments and Payables (PPP) and Interdepartmental Settlement (IS) were implemented.
- Most deficiencies identified in the assessment of Grants and Scholarships (G&S) key financial controls were remediated.

### 4.2 Status and action plan for the next fiscal year and subsequent years

NSERC's ongoing risk-based rotational ongoing monitoring plan over the next few years, based on an annual validation of high-risk processes and controls and related adjustments, is shown below:

Remediation of design and operating deficiencies are completed. Key control areas	Risk Rating	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22
i) ELCs	Medium	No	Yes	No	No	Yes	No
ii) ITGCs							
AMIS	Medium	Yes	No	No	Yes	No	Yes
NAMIS	Medium	Yes	No	No	Yes	No	Yes
FreeBalance	Medium	Yes	No	Yes	No	No	Yes
RP	Medium	No	Yes	No	No	Yes	No
SMS	Low	No	No	Yes	No	No	No
iii) Business process controls							
Grants and Scholarships	Medium	No	No	Yes	No	Yes	No
Purchases, Payments and Payables	Low	No	No	No	Yes	No	No
Payroll/Salaries	Medium	Design	Testing	Yes	No	Yes	No
Interdepartmental Settlements	Low	No	No	No	Yes	No	No
Financial Reporting: Period End	Low	Yes	No	No	No	Yes	No
Financial Reporting: Year End	Low	No	Yes	No	No	No	Yes