

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 2019-20 (Unaudited)

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1. Introduction

This document 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 2019-20 [Departmental Results Report](#) and the 2019-20 [Departmental Plan](#).

2. Departmental system of internal control over financial reporting

2.1 Internal control management

NSERC has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. 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;
- Through the annual Performance Management and Employee Assessment Agreements, all employees are to certify and attest that they have read the Value and Ethics Code for the Public Service. The Code outlines accountability for responsible conduct;
- Guidance to business process owners regarding impacts of changes on internal controls;
- Ongoing communication and training on statutory requirements, and policies and procedures for sound financial management and control; and
- Monitoring of, and regular updates on, internal control management, as well as the provision of relevant assessment results and action plans to the President, CFO and the Internal Audit Committee (IAC).

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, which administers the payments of salaries and the procurement of some goods and services in accordance with NSERC's Delegation of Authority, and the provision of accommodation services;
- 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; and
- Treasury Board Secretariat, which provides information on public sector insurance and centrally administers payment of the employer's share of contributions toward statutory employee benefit plans.

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 \$1.5 million (\$4.8 million in 2018-19) 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 \$25 thousand during the year (\$101 thousand in 2018-19) and were netted against NSERC's operating expenses.

3. Departmental assessment results during fiscal year 2019-20

The following table summarizes the status of the ongoing monitoring activities according to the previous fiscal year's rotational plan.

Progress during the 2019-20 fiscal year:

Element in previous year's rotational ongoing monitoring plan	Status
Budgeting and Forecasting	Due to unexpected circumstances and competing priorities, the assessment could not be completed in fiscal 2019-20 and is deferred to fiscal 2020-21 for the design assessment and to fiscal 2021-22 for operating effectiveness testing.
Interdepartmental Settlements	Completed as planned; remedial actions have been identified and implemented.
Purchases, Payments, Payables	Completed as planned; remedial actions have been identified and implemented.
ITGC – Grants Managements Systems (AMIS/NAMIS)	Due to unexpected circumstances and competing priorities, the assessment could not be completed in fiscal 2019-20 and is deferred to fiscal 2020-21.

3.1 New or significantly amended key controls:

In the current fiscal 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.

3.2 Ongoing monitoring plan:

As part of its rotational ongoing monitoring plan, the department completed its reassessment of the financial controls related to Purchases, Payments, Payables and Interdepartmental Settlements. For the most part, the key controls that were tested performed as intended, with remediation required as follows:

Interdepartmental Settlements

- No design weaknesses were noted during the design assessment, and two deviations were noted in the operating effectiveness testing. No high risk areas were identified.
- The deficiencies found were associated to:
 - Inconsistency of controls related to Section 34 approvals for a single type of transaction.
- A management action plan addressing the recommendations was developed by the process owner and was fully implemented.

Purchases, Payments, Payables

- No design weaknesses were noted during the design assessment, and four deviations were noted in the operating effectiveness testing. No high risk areas were identified.
- The deficiencies found stem mainly from the following issues:
 - Inconsistency of controls related to Section 32 and 34 approvals by RC Managers; and
 - Lack of effective pre-payment verification in Finance.
- A management action plan addressing the recommendations was developed by the process owner where appropriate to strengthen its control environment.

4. NSERC's Action Plan

4.1 Progress during fiscal year 2019-20

From the assessments completed in prior fiscal years, all recommendations have been addressed for the Payroll Business Process.

The outstanding recommendations are presented as follow:

- Entity Level Controls: Out of six (6) recommendations, four (4) have been fully implemented and two (2) outstanding recommendations are in progress to be implemented during 2020-21.
- ITGC Controls related to Research Portal 1.0: Out of the nine (9) total observations, six (6) have been fully implemented. The outstanding recommendations are in progress to be implemented during 2020-21.
- Grants and Scholarships: Out of three (3) recommendations, one (1) has been fully implemented. The outstanding recommendations are in progress to be implemented in fiscal 2020-21.

4.2 Action plan for the next fiscal year and subsequent years

In response to the current circumstances related to COVID-19 and in agreement with TBS request to demonstrate flexibility in developing, applying and enforcing regulations, within the specific context of NSERC , while considering the risk to the health, safety and security of Canadians and the environment, many processes and interfaces have been transitioned to adapt to the new context. This has repercussions on process risks, the suitability of established controls, and ultimately the general effectiveness of internal controls systems.

In light of the above, five areas of risks have been considered in building the Ongoing Monitoring Plan for next fiscal year and subsequent years:

- **Governance:** governance structures may not operate effectively to support decision-making and oversight in the current environment.
- **Delegation of Authorities:** given the exceptional circumstances, delegated authorities may not be well-understood or exercised as intended.
- **Decision making process:** given the speed and volume of decision-making, under exceptional circumstances, the quality and transparency of decisions may be impacted.
- **Program Delivery:** Grants and Scholarships being deployed with unprecedented speed and volumes may lack certain preventative as well as back-end controls to avoid significant error, misuse or misallocation of funds.
- **Financial Reporting:** given year end close occurred solely post COVID, key ICFR controls may be subject to significant change, or new risk, within this process that would impact the validity, accuracy and completeness of the Financial Statements, including the Notes.

In order to assess the noted areas of risks, the Multi-Year Ongoing Monitoring Plan has been revised to test all business processes over the next three (3) fiscal years based on current risk elements.

The NSERC’s rotational ongoing monitoring plan over the next three fiscal years, based on an annual validation of the high-risk processes and controls and related adjustments to the ongoing monitoring plan as required, is shown in the following table.

Key control areas	Fiscal Year 2020-2021	Fiscal Year 2021-2022	Fiscal Year 2022-2023
i) ELCs		X	
ii) ITGCs			
AMIS		X	
NAMIS		X	
FreeBalance	X		
RP / CRM			X
SMS			X
iii) Business process controls			
Grants and Scholarships		X	
Purchases, Payments and Payables			X
Payroll/Salaries			X
Interdepartmental Settlements			X
Financial Reporting: Period End	X		
Financial Reporting: Year End	X		
iv) Additional Internal Control over Financial Management			
Forecasting & Budgeting	Design Assessment	Operating Effectiveness	