

Natural Sciences and Engineering Research Council of  
Canada

Annex to the Statement of Management Responsibility including  
Internal Control over Financial Reporting (Unaudited)  
Fiscal year 2015-16

## Table of contents

<b>1. INTRODUCTION .....</b>	<b>1</b>
<b>2. DEPARTMENTAL SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING .....</b>	<b>1</b>
2.1 INTERNAL CONTROL MANAGEMENT .....	1
2.2 SERVICE ARRANGEMENTS RELEVANT TO FINANCIAL STATEMENTS .....	2
<b>3. DEPARTMENTAL ASSESSMENT RESULTS DURING FISCAL YEAR 2015-16 .....</b>	<b>3</b>
<b>4. NSERC'S ACTION PLAN .....</b>	<b>4</b>
4.1 PROGRESS DURING FISCAL YEAR 2015-16 .....	4
4.2 ACTION PLAN FOR THE NEXT FISCAL YEAR AND SUBSEQUENT YEARS .....	5

## 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 2015-16 [Departmental Performance Report](#) and the 2016-17 [Report on Plans and Priorities](#).

## 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 and deputy head of NSERC and has supervision over and direction of the work and staff of NSERC.

**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 Committees (Committee on Discovery Research and Committee on Research Partnership)** –

These Committees provide advice to the governing Council and the Vice-Presidents on funding opportunities that support discovery and innovation, and related policy issues, in accordance with specific decisions and any other guidelines provided by the Council. The Committees report back to the Council on their business as required. On occasion, either Committee may be asked to act as a review committee and make recommendations to its Vice-Presidents or to the Council on major grants and awards.

**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 four 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 Deputy Head, 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 (effective April 1, 2013);
- A robust 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 Works and Government Services 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 year, NSERC administered \$19.8 million (\$20.2 million in 2014-15) 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 \$429 thousand during the year (\$708 thousand in 2014-15) and were netted against NSERC's operating expenses.

## 3. Departmental assessment results during fiscal year 2015-16

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 significant amendments to key controls in existing processes which required a reassessment. Design and operating effectiveness testing was conducted on the key controls for entity-level controls (ELC) and information technology general controls (ITGCs) and all business process in 2013-14. In 2014-15, NSERC created a management action plan to remediate key control deficiencies following the ITGC and ELC assessment conducted. Significant remediation efforts took place since and most high, medium and low design ITGC and all of ELC risk control deficiencies have now been remediated.

**Ongoing monitoring program:** As part of its rotational ongoing monitoring strategy plan, the agencies completed in 2015-16, its assessment of the key financial controls for the following business processes:

- Grants and Scholarships (G&S);
- Purchases, Payments and Payables (PPP); and
- Interdepartmental Settlement (IS).

All business processes were tested and performed as intended, with a few elements requiring remediation. As a result of the on-going monitoring testing of the Agencies following are the risks identified:

G&S: Two (2) high risk and three (3) low risk deficiencies were identified in the areas regarding compliance with Section 32 and 34 of the Financial Administration Act (FAA).

PPP: One (1) medium risk and two (2) low risk deficiencies were identified in the areas regarding compliance with Section 32 of the Financial Administration Act (FAA) and the Delegation of Financial Signing Authority (DFSA).

IS: One (1) low risk deficiency was identified in the areas regarding compliance with Section 34 of the Financial Administration Act (FAA).

In all cases a management action plan was created to remediate the key control deficiencies and all should be remediated in 2016-17.

## 4. NSERC's action plan

### 4.1 Progress during fiscal year 2015-16

During 2015-16, NSERC continued to conduct its ongoing monitoring according to the previous year's rotational plan as shown in the following table.

<b>Element in previous year's action plan</b>	<b>Status</b>
Entity level controls: Implement remediation	<ul style="list-style-type: none"> <li>• Design and operating effectiveness testing was completed in 2013-14.</li> <li>• Development of management action plans to remediate key controls deficiencies are complete.</li> <li>• Remediation of design and operating deficiencies are completed</li> <li>• Operating effectiveness testing will be conducted in 2016-17.</li> </ul>
Information technology general controls: Implement remediation	<ul style="list-style-type: none"> <li>• Design and operating effectiveness testing was completed in 2013-14.</li> <li>• Development of management action plans to remediate key controls deficiencies are complete.</li> <li>• Remediation of design deficiencies substantially advanced. <ul style="list-style-type: none"> <li>• Six (6) are on track to be remediated in 2016-17.</li> <li>• Five (5) are on hold to be remediated primarily due to PeopleSoft implementation delays and Change Management tools that are planned to be introduced shortly</li> </ul> </li> <li>• Progress in remediating the remaining deficiencies will continue to be monitored.</li> <li>• Operating effectiveness testing will be conducted in 2016-17.</li> </ul>
Grants and scholarships: Rotational ongoing monitoring.	<ul style="list-style-type: none"> <li>• Design and operating effectiveness testing was completed in 2015-16.</li> <li>• Development of management action plans to remediate key controls deficiencies are complete.</li> <li>• Implementation of remediation plan to be completed in 2016-17.</li> <li>• Progress in remediating the deficiencies will be monitored.</li> <li>• Ongoing monitoring scheduled to be conducted in 2017-18 based on Rotational Ongoing Monitoring Plan</li> </ul>
Purchases, Payments and Payables: Rotational ongoing monitoring.	<ul style="list-style-type: none"> <li>• Design and operating effectiveness testing was completed in 2015-16.</li> <li>• Development of management action plans to remediate key controls deficiencies are complete.</li> <li>• Implementation of remediation plan to be completed in 2016-17.</li> <li>• Progress in remediating the deficiencies will be monitored.</li> <li>• Ongoing monitoring scheduled to be conducted in 2017-18 based on Rotational Ongoing Monitoring Plan</li> </ul>
Interdepartmental Settlements: Rotational ongoing monitoring.	<ul style="list-style-type: none"> <li>• Design and operating effectiveness testing was completed in 2015-16.</li> <li>• Development of management action plans to remediate key controls deficiencies are complete.</li> <li>• Implementation of remediation plan to be completed in 2016-17.</li> <li>• Progress in remediating the deficiencies will be monitored.</li> </ul>

	<ul style="list-style-type: none"> <li>Ongoing monitoring scheduled to be conducted in 2017-18 based on Rotational Ongoing Monitoring Plan</li> </ul>
--	---

## 4.2 Action plan for the next fiscal year and subsequent years

NSERC is now entering its third year of the three year plan established in 2014-15. NSERC's rotational ongoing monitoring plan over the next two years, based on an annual validation of the high-risk processes and controls and related adjustments to the ongoing monitoring plan as required, is also shown in the following table. The entity level controls will be mapped against the 2013 COSO Framework in the first quarter of fiscal year 2016-2017 and any impact on testing resulting from this exercise will be reflected.

Rotational Ongoing Monitoring Plan

Key control areas	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18
Entity-level controls	Ongoing remediation	Yes	No
Information technology general controls under departmental management	Ongoing remediation	Yes	Yes
Grants and Scholarships	Yes	No	Yes
Purchases, Payments and Payables	Yes	No	Yes
Payroll/Salaries	No	Yes	No
Interdepartmental Settlements	Yes	No	Yes
Financial Reporting: Period End	No	Yes	No
Financial Reporting: Year End	No	Yes	No