

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 2017-18 (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 2017-18 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.

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 \$8.8 million (\$12.1 million in 2016-17) 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 \$201 thousand during the year (\$298 thousand in 2016-17) and were netted against NSERC's operating expenses.

3. Departmental assessment results during fiscal year 2017-18

In 2017-18, 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 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 – Year End:**
 - Twenty seven (27) key controls were tested. Two (2) exceptions were identified, two (2) opportunities for improvements were noted and one (1) control gap was found. The exceptions and opportunities for improvements were grouped together into one observation rated medium risk. The control gap was rated high risk. A management action plan was developed for each deficiency and the details were presented at the IAC at the June 2018 meeting. Compensatory procedures exist to mitigate the impact of the deviations.
- **Entity Level Controls:**
 - Sixty (60) controls were tested. Six (6) observations were identified with respect to Control Environment, Control Activities and Information and Communication. The six (6) controls with deficiencies were rated medium (2) and low risk (4). A management action plan has been put in place and presented to the IAC in June 2018.
- **Information Technology General Controls – Research Portal 1.0:**
 - Design effectiveness: Fifteen (15) key controls were tested, 12 (80%) were properly designed without any deviations noted.
 - Operating effectiveness: The deficiencies were related to the three main ITGC categories: Access Management, Change Management and Operations Management. Seven (7) deviations were identified, one (1) opportunity for improvement was noted and one (1) where the auditors were unable to conclude.
 - A management action plan was developed for each deficiency and has been also presented to the IAC in June 2018.

4. NSERC's Action Plan

4.1 Progress during fiscal year 2017-18

During 2017-18, NSERC has completed all work related to its initial assessment cycle and has continued to bring significant improvements to its key financial controls. It should be noted that all deficiencies identified previous years in the Information Technology General Controls (NAMIS, AMIS and FreeBalance) and business process control reviews were remediated in 2017-18.

4.2 Action plan for the next fiscal year and subsequent years

The NSERC's rotational ongoing monitoring plan over the next 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. Please note that this plan will be reviewed during Fiscal Year 2018-19 and the new monitoring plan will be presented to IAC.

Key control areas	Risk Rating	Fiscal Year 2018-19	Fiscal Year 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22
i) ELCs	Medium	No	No	Yes	No
ii) ITGCs					
AMIS	Medium	No	Yes	No	Yes
NAMS	Medium	No	Yes	No	Yes
FreeBalance	Medium	Yes	No	No	Yes
RP	Medium	No	No	Yes	No
SMS	Low	Yes	No	No	No
iii) Business process controls					
Grants and Scholarships	Medium	Yes	No	Yes	No
Purchases, Payments and Payables	Low	No	Yes	No	No
Payroll/Salaries	Medium	Yes	No	Yes	No
Interdepartmental Settlements	Low	No	Yes	No	No
Financial Reporting: Period End	Low	No	No	Yes	No
Financial Reporting: Year End	Low	No	No	No	Yes