

**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 2018-19 (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 2018-19 [Departmental Results Report](#) and the 2018-19 [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 \$4.8 million (\$8.8 million in 2017-18) 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 \$101 thousand during the year (\$201 thousand in 2017-18) and were netted against NSERC's operating expenses.

3. Departmental assessment results during fiscal year 2018-19

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

Progress during the 2018-19 fiscal year:

Element in previous year's rotational ongoing monitoring plan	Status
Information technology general controls (ITGC) – Salary Management System (SMS)	Completed as planned, assessed controls over change management, access management and operations management. No corrective measures identified.
Grants and Scholarships	Completed as planned; remedial actions identified and are currently being implemented.
Payroll / Salaries	Completed as planned; remedial actions identified and are currently being implemented.
ITGC – Financial System (Freebalance)	Assessment deferred due to sunseting of current system (to be replaced in 2021 by GCFM Core from TBS) and other competing priorities.

In the 2018-19 fiscal year, NSERC conducted the following work in addition to the progress made in ongoing monitoring:

- Implementation of a risk based Account Verification Framework (AVF) for non-salary operational transactions to align with the TB *Policy on Financial Management's* requirements. The AVF defines the operational requirements, the roles and responsibilities for all stakeholders, quarterly testing and its findings, any corrective measures necessary for follow up and the reporting requirements to senior management.
- Review of the new internal control guidance by TBS, including the *Guide to Internal Control over Financial Management*, the *Guide to Ongoing Monitoring of Internal Controls Over Financial Management* and alignment of the Agency's ongoing monitoring framework to ensure alignment and compliance.

- Review of the new internal control guidance on payroll by TBS, the *Practitioner's guide on implementing a departmental financial management control framework for pay administration*, and review of the Agency's current payroll controls and processes to ensure alignment and best practices are followed.
- Continued the implementation of remedial actions identified in previous years' assessments. All remedial actions were implemented for the financial close process, and progress was made on remedial actions identified in the management action plans for the entity-level controls and previous ITGC assessments.

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 its departmental ITGC for SMS and of the financial controls within the business processes of grants & scholarships and payroll & salaries. For the most part, the key controls that were tested performed as intended, with remediation required as follows:

Grants & Scholarships

- Three design weaknesses were noted during the design assessment, and three deviations were noted in the operating effectiveness testing.
- The deficiencies found were associated to:
 - Inconsistency of controls related to Section 32 and 34 approvals for RC Managers; and
 - Lack of effectiveness of pre-payment verification in Finance.
- A management action plan addressing the recommendations was developed by the process owner to strengthen its control environment.

Payroll

- Four design weaknesses were noted during the design assessment, and one deviation was noted in the operating effectiveness testing. No high risk areas were identified.
- The deficiencies found stem mainly from the following issues:
 - Unclear expectations of roles and responsibility around evidence of review and document retention;
 - Lack of post-payment review, although there is an extensive amount of pre-payment review currently performed which mitigates the risk of error; and
 - The payment approval authority is structured differently than what is outlined by TBS Guidelines.
- 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 for the next fiscal year and subsequent fiscal years

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 2019-20	Fiscal Year 2020-21	Fiscal Year 2021-22
i) ELCs			X
ii) ITGCs			
AMIS	X		
NAMIS	X		
FreeBalance		X	
RP / CRM		X	
SMS			
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	X		