

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 2020-21 (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 2021-22 [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 year, NSERC administered \$0.6 million (\$1.5 million in 2019-20) in funds for grants and scholarships. These expenses are not reflected in NSERC's financial statements 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 \$6 thousand during the year (\$25 thousand in 2019-20) and were netted against NSERC's operating expenses.

3. Departmental assessment results during fiscal year 2020-21

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

Progress during the 2020-21 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 2020-21 and is deferred to fiscal 2021-22 for the design assessment and operating effectiveness testing.
Financial Reporting: Period End	Completed as planned; remedial actions have been identified and implemented.
Financial Reporting: Year End	Completed as planned; remedial actions have been identified and implemented.
Information Technology General Controls (ITGC) – Financial System (FreeBalance)	Completed as planned; remedial actions have been identified and implemented, with the exception of one recommendation relating system access upon employee departure which is expected to be remediated by September 2021.

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 Financial Reporting: Period End and Year End, and ITGC – Financial System (FreeBalance). Most of the key controls tested performed as intended, with remediation required as follows:

Financial Reporting: Period End

- Out of six (6) key controls, no exceptions were found at the operating effectiveness testing.
- Two (2) low risk observations were noted at the design level of controls and recommendations were reported and promptly implemented to strengthen the process review over month end accounting transactions.
- The overall conclusion is that the process is working as intended. Revisions have been made to the design in order to include two additional key controls and to update the documented process.

Financial Reporting: Year End

- Out of twenty-six (26) key controls, five (5) resulted in exceptions noted at the operating effectiveness level, all of which were assessed as medium risk.
- Four (4) exceptions related to a lack of segregation of duties for manual journal entries.
- One (1) exception was noted emanating from lack of a documented process review.
- All recommendations to enforce segregation of duties' controls, and set up a consistent review process have been implemented.

ITGC – Financial System (FreeBalance)

- Out of eight (8) key controls tested related to access management, five (5) observations were noted. Three (3) were deemed high risk, one (1) medium risk and one (1) low risk.
- Out of four (4) key controls tested related to change management no exceptions were noted.
- A management action plan was developed where four (4) out five (5) observations have already been rectified.
- The last observation that is “in progress” relates to revocation of access for employees who are no longer part of the organization. It is expected to be fully addressed by September 2021.

4. NSERC's Action Plan

4.1 Progress during fiscal year 2020-21

From the assessments completed in prior fiscal years, all recommendations have been addressed for Grants and Scholarships and Entity Level Controls.

The outstanding recommendations are presented as follows:

- ITGC Controls related to Research Portal 1.0: Out of nine (9) total observations, seven (7) have been fully implemented. The outstanding recommendations are in progress to be implemented by the end of Q4 2021-2022 and during 2022-23, and are related to system access and password configurations.

4.2 Action plan for the next fiscal year and subsequent years

In response to the current circumstances related to COVID-19, many business processes and interfaces have been modified and updated to adapt to the new business context. This is in agreement with guidance from TBS that requested departments and agencies demonstrate flexibility in developing, applying and enforcing regulations while considering the risk to the health, safety and security of Canadians and the environment. These changes can have repercussions on process risks, the suitability of established controls, and ultimately the general effectiveness of internal controls systems.

In light of the above, four additional areas of risks have been considered in when updating the Ongoing Monitoring Plan for current and coming 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.

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 2021-2022	Fiscal Year 2022-2023	Fiscal Year 2023-2024
i) ELCs	X		
ii) ITGCs			
AMIS	X		
NAMIS	X		
FreeBalance			X
RP / CRM		X	
SMS		X	
iii) Business process controls			
Grants and Scholarships	X		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		