

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 2021-22 (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 2021-22 [Departmental Results Report](#) and the 2022-23 [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 \$119,358 (\$584,753 in 2020-21) 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 \$nil during the year (\$5,566 in 2020-21) and were netted against NSERC's operating expenses.

3. Departmental assessment results during fiscal year 2021-22

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

Progress during the 2021-22 fiscal year:

Element in previous year's rotational ongoing monitoring plan	Status
Grants & Scholarships	Due to unexpected circumstances and competing priorities, the assessment is currently underway but has not been completed. The assessment will be completed during 2022-23.
Information Technology General Controls (ITGC) – Grants Management Systems (NAMIS & AMIS)	Completed as planned; remedial actions have been identified and implementation is expected to be completed during 2022-23.
Entity Level Controls Budgeting and Forecasting	Due to the upcoming migration to a new financial system in 2023-24, the design assessments have been deferred to fiscal 2023-24, post SAP implementation, and will consider the impact of the new financial system on internal controls over financial reporting.

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 ITGC – Grants Management Systems (NAMIS & AMIS). A total of fourteen (14) key controls were assessed in the areas of change management, access management and IT operations. Most of the controls tested performed as intended, with remediation required as follows:

- One (1) observation was noted in the context of segregation of duties.
- Four (4) observations were noted related to password controls and access rights.
- One (1) observation was noted in the context of quality control.

A management action plan is currently being developed to address all six (6) observations and will ensure timely remediation.

4. NSERC's Action Plan

4.1 Progress during fiscal year 2021-22

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

The previous assessment completed regarding ITGC Controls for Research Portal 1.0 has two (2) outstanding recommendations to implement, out of the nine (9) total observations, related to system access and password configurations. The outstanding recommendations are in progress to be implemented during 2022-23.

4.2 Action plan for the next fiscal year and subsequent years

NSERC will be transitioning away from Freebalance, its current financial system, to a new system named “System Applications and Products in Data Processing (widely known as SAP) in April 2023. NSERC will join a cluster of other government departments that are hosted and serviced on SAP by the Treasury Board Secretariat (TBS).

Business processes identified in the multi-year testing plan will all, to some extent, be impacted by the implementation of SAP. As such, a design assessment of business cycles should be performed post-implementation to ensure that controls are operating as intended and to identify any potential control gaps as a result of the system change.

When reviewing the detailed business processes and the potential impact on controls, the following factors will be considered:

- Leveraging the capabilities of the new system
- Minimizing the impact on operations
- Minimizing cost

- Enabling future business value

The controls adjustment will happen simultaneously during 2022-23 within the change management scope of the transition to a new financial system, following this step-by-step transition:

Step 1 – perform a comprehensive system review in order to evaluate interdependencies, system integration and flow of events.

Step 2- complete any necessary adjustments and synchronization in order to adapt the entire set of control processes to the new environment.

Step 3— map the system and develop a solid understanding of how the new system operates from a controls perspective.

Step 4- execute a multi-year controls testing plan based on the new risk profile and according to the refreshed risk matrix.

The control adjustments will be developed in collaboration with Ernst & Young (E&Y), who are experts in internal controls with a proven track record on financial system implementations.

In order to assess the global risks, the Multi-Year Ongoing Monitoring Plan has been revised to perform a design assessment of all business processes over the next three (3) fiscal years following SAP implementation based on their risk elements, and while considering the impact of the new financial system. We will resume operating effectiveness testing once design assessments have been completed for all business cycles. The NSERC’s rotational ongoing monitoring plan over the next three fiscal years, is shown in the following table.

Key control areas	Fiscal Year 2022-23	Fiscal Year 2023-24	Fiscal Year 2024-25	Fiscal Year 2025-26
i) ELCs				X
ii) ITGCs				
AMIS				X
NAMIS				X
SAP		X		
RP / CRM			X	
iii) Business process controls				
Grants and Scholarships	X	X*		X
Purchases, Payments and Payables	X		X*	
Payroll/Salaries		X*		
Interdepartmental Settlements	X		X*	
Financial Reporting: Period End		X*		
Financial Reporting: Year End			X*	
iv) Additional Internal Control over Financial Management				
Forecasting & Budgeting			X	

X* Only Design Assessment

X Design Assessment & Operating Effectiveness