

**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 2022-23 (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 2022-23 [Departmental Results Report](#) and the 2023-24 [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 \$nil (\$119,358 in 2021-22) in funds for grants and scholarships. These expenses relate to discontinued visiting fellowships and 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.

### 3. Departmental assessment results during fiscal year 2022-23

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

Progress during the 2022-23 fiscal year:

Element in previous year's rotational ongoing monitoring plan	Status
Grants & Scholarships	The assessment was completed during 2022-23; remedial actions were identified, and implementation was completed by April 2023.
Purchases, Payments and Payables	Completed as planned; remedial actions were identified, and implementation was completed in April 2023.
Interdepartmental Settlements	Completed as planned; remedial actions were identified and implementation was completed during 2022-23.
Information Technology General Controls (ITGC) – Grants Management Systems (NAMIS & AMIS)	Completed as planned; remedial actions were identified during 2021-22, however due to competing priorities with the migration to a new financial system, implementation is expected to be completed during 2023-24.
Entity Level Controls Budgeting and Forecasting	Due to the recent migration to a new financial system in 2023-24, the design assessments have been deferred to fiscal 2024-25, 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 Grants and Scholarships; Purchases, Payments and Payables; and Interdepartmental Settlements.

#### Grants and Scholarships

A total of six (6) key controls for Grants and six (6) key controls for Scholarships were assessed. Most of the controls tested performed as intended, with remediation required as follows:

- Grants - one (1) observation was noted related to the sequence of certifications under Sections 32, 34 and 33.
- Scholarships – three (3) observations were noted related to the sequence of certifications under Sections 32, 34 and 33.

A management action plan was developed, and all four (4) observations were remediated by April 2023.

## **4. NSERC's Action Plan**

### **4.1 Progress during fiscal year 2022-23**

From the assessments completed in prior fiscal years, all recommendations have been addressed for Grants and Scholarships; Purchases, Payments and Payables; and Interdepartmental Settlements.

The outstanding recommendations are presented as follows:

- ITGC Controls related to NAMIS/AMIS: Five (5) of the six (6) total observations related to change management, access management and IT operations were fully implemented as of July 2023. One (1) outstanding recommendation related to access management is in progress, to be implemented during 2023-24.

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

NSERC transitioned away from Freebalance, its previous financial system, to a new system named “System Applications and Products in Data Processing (widely known as SAP)” in April 2023.

NSERC has joined 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 should be considered:

- Leveraging the capabilities of the new system
- Minimizing the impact on operations
- Minimizing cost
- Enabling future business value

The controls adjustment is happening simultaneously during 2023-24 within the change management scope of the transition to a new financial system, following this step-by-step transition:

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

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

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

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

The controls adjustment is being implemented in collaboration with The Treasury Board Secretariat's Financial Systems team members.

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 2023-24	Fiscal Year 2024-25	Fiscal Year 2025-26
<b>i) ELCs</b>			
<b>ii) ITGCs</b>			
AMIS			
NAMIS			
SAP		X	
RP / CRM			X
<b>iii) Business process controls</b>			
Grants and Scholarships	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*	
<b>iv) Additional Internal Control over Financial Management</b>			
Forecasting & Budgeting		X	

X\* Only Design Assessment

X Design Assessment & Operating Effectiveness