

# **Social Sciences and Humanities Research Council of Canada**

**Annex to the Statement of Management Responsibility including  
Internal Control over Financial Reporting (Unaudited)**

**Fiscal year 2013 - 14**

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## 1. Introduction

This annex provides summary information on the measures taken by the Social Sciences and Humanities Research Council of Canada (SSHRC) 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 2013-14 [Departmental Performance Report](#) and the 2014-15 [Report on Plans and Priorities](#).

## 2. Departmental system of internal control over financial reporting

### 2.1 Internal control management

SSHRC recognizes the importance of setting the tone, starting with senior management, to help ensure that staff at all levels understand their role in maintaining effective systems of ICFR and are well equipped to exercise their responsibilities effectively. SSHRC's focus is to ensure that risks are well managed through a responsive and risk-based control environment that enables continuous improvement and innovation. SSHRC 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 assumes overall responsibility and leadership for measures taken to maintain an effective system of internal control.

**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.

**Executive VPs and 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 assurance through periodic internal audits that are instrumental to the maintenance of an effective system of ICFR.

**The Council** – Provides advice on strategy, policy and program priorities, budget allocations, risk management, performance management and stakeholder relations with the goal of ensuring that SSHRC supports high quality research, training and knowledge mobilization, and enables a strong, vibrant research community in the social sciences and humanities. Provides input into the annual performance objectives of the organization, monitoring achievement against those objectives, and endorsing the substance of the performance reports.

**Executive, Governance and Nominations Committee of Council** – Exercises the functions of the Council between Council meetings and provides strategic oversight on human resources policy. Makes recommendations to Council on governance matters and the composition and membership of the Council and its committees.

**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)** - Provides objective advice and recommendations to the Deputy Head regarding the sufficiency, quality and results of assurance on the adequacy and functioning of the department's risk management, control and governance frameworks and processes (including accountability and auditing systems). The IAC meets at least two times a year and is composed of the President, three independent external members and the chair of the SSHRC Council.

A departmental internal control management framework is in the process of being developed which 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 an annual basis on internal control management plus assessment results and action plans to the President, CFO, management committees and IAC.

SSHRC'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;
- SSHRC's Code of Conduct (effective April 1, 2013);
- A dedicated division 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;
- 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

SSHRC 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 Works and Government Services Canada centrally administers the payments of salaries and benefits, the procurement of some goods and services in accordance with SSHRC's Delegation of Authority, and the provision of accommodations services;
- The Treasury Board of Canada Secretariat provides SSHRC 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 SSHRC may be subject in the normal course of operations.
- Shared Services Canada provides workplace technology and devices to SSHRC. The scope and responsibilities are addressed in the interdepartmental arrangement between Shared Services Canada and SSHRC.

### Specific Arrangements

SSHRC administers funds received from other federal government departments and agencies to issue grants, scholarships and related payments on their behalf. During the year, SSHRC administered \$228.7 million (\$230.2 million in 2012-13) in funds for grants and scholarships. These expenses are not reflected in SSHRC's Statement of Operations but rather are recorded in the financial statements of the departments or agencies that provided the funds.

### 3. Departmental assessment results during year 2013-14

During 2013-14, SSHRC completed design effectiveness testing and operating effectiveness testing of entity-level controls (ELCs) and information technology general controls (ITGCs), completing the full assessment of its system of internal control over financial reporting. SSHRC is now implementing ongoing monitoring according to its multi-year plan.

#### 3.1 Design effectiveness testing of key controls

In 2013-14, SSHRC completed design effectiveness testing of its ELCs and ITGCs, the last remaining components of the assessment of its system of internal control over financial reporting. Management action plans to remediate key control deficiencies have been established and remediation efforts are planned to be implemented by March 31, 2015.

As a result of design effectiveness testing, the department identified the following required remediation:

##### **ELCs**

- Develop a framework which defines the reporting structure related to the communication and monitoring of the effectiveness of ICFR;
- Conduct annual risk updates to the risk-based assessment of the system of ICFR to ensure its on-going effectiveness; and
- Perform fraud risk assessments on a comprehensive and recurring basis and ensure fraud assessments are formally integrated within the governance of the Councils.

##### **ITGCs**

- User access should be appropriately administered and monitored on a consistent basis to ensure user access is appropriately restricted and removal of terminated user access is performed in a timely manner for all systems in-scope;
- Security configurations and password settings should be set in line with standard industry practices across all systems in-scope; and
- A segregation of functions in relation to developer access to the production environment for ongoing program changes and new system development activity should be implemented.

#### 3.2 Operating effectiveness testing of key controls

In 2013-14, the department completed operating effectiveness testing of its ELCs and ITGCs, the last remaining components of the assessment of its system of internal controls over financial reporting. Required remediation has been completed for operating expenses and accounts payable and for IT general controls, with remediation still in progress for transfer payments.

As a result of the operating effectiveness testing, the department identified the following required remediation:

##### **ELCs**

- Ensure control activities in place are adequately documented as evidence of the occurrence of the control activity for ICFR purposes.

##### **ITGCs**

- Documentation retention in relation to periodic user access reviews, removal of user access, security clearance forms and exit checklists should be enforced;

- Greater consistency of back-up settings in accordance with the documented policy should be enforced, and testing of business continuity and IT continuity and disaster recovery plans should be performed; and
- The creation and execution of test plans and test cases, as well as the retention of key stakeholder approval for implemented program changes should be enforced.

### 3.3 Ongoing monitoring of key controls

As per SSHRC's ICFR Monitoring Strategy and Plan, the department is implementing ongoing monitoring of the Grants and Scholarships business process in 2014-15, and in ELCs, ITGCs and the remaining business process controls in future years.

## 4. SSHRC's action plan

### 4.1 Progress during fiscal year 2013-14

During 2013-14, SSHRC continued to make significant progress in assessing and improving its key controls. The following table summarizes the department's progress based on the plans identified in the previous fiscal year's annex.

Progress during Fiscal Year 2013-14

Element in previous year's action plan	Status
Entity Level Controls: Complete design and operating effectiveness testing.	<ul style="list-style-type: none"> <li>• Design and operating effectiveness testing completed as planned, development of management response and action plans are complete, and remediation of design and operating deficiencies has commenced.</li> </ul>
Information technology general controls: Complete design and operating effectiveness testing.	<ul style="list-style-type: none"> <li>• Design and operating effectiveness testing completed as planned, development of management response and actions plans are complete, and remediation of design deficiencies has commenced.</li> </ul>
Process Level Controls: Rotational ongoing monitoring.	<ul style="list-style-type: none"> <li>• In consideration of organizational capacity, the start of rotational ongoing monitoring is deferred until 2014-15 to focus efforts on completing the full assessment of its system of internal control over financial reporting in 2013-14 through the completion of the assessment of the last remaining components: design and operating effectiveness testing of its ELCs and ITGCs, which are now finalized.</li> <li>• Remediation completed or substantially advanced for the three remaining recommendations made in 2011-12.</li> <li>• Financial Close – Period End and Year End: Remediation to ensure checklists are used and approved by appropriate authority is substantially advanced.</li> </ul>

## 4.2 Status and action plan for the next fiscal year and subsequent years

Building on progress to date, SSHRC has completed a full assessment of its system of internal control over financial reporting in 2013-14 through completing design and operating effectiveness testing of its ELCs and ITGCs, the last remaining components. In 2014-15, the department will continue to remediate identified design and operating deficiencies and will be applying its rotational ongoing monitoring plan to reassess control performance on a risk basis across a majority of the control areas. The status and action plan for the completion of the identified control areas for the next fiscal year and for subsequent years are shown in the following table.

### Rotational Ongoing Monitoring Plan

Key control areas	Design effectiveness testing and remediation	Operational effectiveness testing and remediation	Ongoing monitoring rotation <sup>1</sup>
Entity-level controls	Design effectiveness testing complete, remediation in 2014-15	Operational effectiveness testing complete, remediation in 2014-15	Future years
Information technology general controls under departmental management	Design effectiveness testing complete, remediation in 2014-15	Operational effectiveness testing complete, remediation in 2014-15	Future years
Grants and Scholarships	Complete	Complete	2014-15
Purchases, Payments and Payables	Complete	Complete	Future years
Payroll/Salaries	Complete	Complete	Future years
Interdepartmental Settlements	Complete	Complete	Future years
Financial Reporting: Period End	Complete	Complete	Future years
Financial Reporting: Year End	Complete	Complete	Future years

In addition to the ongoing monitoring planned in 2014-15 for the Grants and Scholarships business process, SSHRC plans on performing a second-round risk assessment of their key control processes. Based on the results of the risk assessment, SSHRC will review their rotational ongoing monitoring strategy and plan and develop their ongoing monitoring methodology and the specific areas of assessment for the next three years.

<sup>1</sup> The frequency of the ongoing monitoring of key control areas is risk-based and may occur over a multi-year cycle.