Social Sciences and Humanities Research Council of Canada

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

Fiscal year 2012 - 13

Note to the reader (Unaudited)

With the new Treasury Board Policy on Internal Control, effective April 1, 2009, organizations are now required to demonstrate the measures they are taking to maintain an effective system of internal control over financial reporting (ICFR).

As part of this policy, organizations are expected to conduct annual assessments of their system of ICFR, establish action plan(s) to address any necessary adjustments, and to attach a summary of their assessment results and action plan to their Statements of Management Responsibility.

Effective systems of ICFR aim to achieve reliable financial statements and to provide assurances that:

- Transactions are appropriately authorized
- Financial records are properly maintained
- Assets are safeguarded from risks such as waste, abuse, loss, fraud and mismanagement
- Applicable laws, regulations and policies are complied with

It is important to note that the system of ICFR is not designed to eliminate all risks, rather to mitigate risk to a reasonable level with controls that are balanced with and proportionate to the risks they aim to mitigate.

The maintenance of an effective system of ICFR is an ongoing process designed to identify, assess effectiveness and adjust as required key risks and associated key controls, as well as to monitor its performance in support of continuous improvement. As a result, the scope, pace and status of those organizational assessments of the effectiveness of their system of ICFR will vary from one organization to the other based on risks and taking into account their unique circumstances.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

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1 INTRODUCTION

1.1 Authority, Mandate and Program Activities

Social Sciences and Humanities Research Council (SSHRC) is a departmental corporation of the Government of Canada created in 1977. It is funded directly by Parliament and reports to it through the Minister of Industry. The functions of SSHRC, based on the authority and responsibility assigned to it under the Social Sciences and Humanities Research Council Act, are to:

- Promote and assist research and scholarship in the social sciences and humanities; and
- Advise the Minister in respect of such matters relating to such research as the Minister may refer to the Council for its consideration.

Further details regarding the SSHRC's priorities, strategic outcome and program activity architecture are available in the Report on Plans and Priorities and the Departmental Performance Report. http://www.sshrc-crsh.gc.ca/about-au_sujet/publications/corporate_reports-rapports_organisationnels-eng.aspx

1.2 Financial highlights

Below is key financial information for fiscal-year 2012-13. More information can be found in SSHRC's audited Financial Statements and Notes to Financial Statements.

http://www.sshrc-crsh.gc.ca/about-au_sujet/publications/corporate_reports-rapports_organisationnels-eng.aspx

- Total expenses were $694 million. Grants and Scholarships were the largest expense, accounting for 96% or $666 million.
- Total assets were $6.4 million. Tangible capital assets represent 37% of the organization's assets followed by due from the Consolidated Revenue Fund (36%), and by accounts receivable (23%).
- Total liabilities were $4.3 million. Accounts payable and accrued liabilities represent 54% of the organization's liabilities, followed by vacation pay and compensatory leave (20%).
- Net cash provided by the Government of Canada totalled $694 million.
- SSHRC shares its administrative services with NSERC. Shared services include Finance, Human Resources, and Information Technology.

1.3 Service arrangements relevant to financial statements

SSHRC relies on other organizations for the processing of certain transactions that are recorded in its financial statements. The significant service arrangements are noted below:

Common Arrangements

- Public Works and Government Services Canada (PWGSC) centrally administers the payments of salaries and some of SSHRC's procurement of goods and services.

- Treasury Board Secretariat provides SSHRC with information used to calculate various accruals and allowances, such as the accrued severance liability.

- The Department of Justice provides professional advice with respect to potential liabilities and claims to which SSHRC may be subject in the normal course of operations.

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 $230.2 million ($231.7 million in 2011-12) 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.

1.4   Audited Financial Statements

As required in the SSHRC Act, the Office of the Auditor General conducts an annual audit of SSHRC's financial statements. SSHRC has received an unqualified audit opinion since its inception in 1977.

1.5   Material changes in fiscal-year 2012-13

There were no significant changes in 2012-13.

It is noted that the OAG will not conduct an audit of SSHRC's financial statements after 2012/13. In future years, the audit will be performed by an independent third party.

2 SSHRC'S CONTROL ENVIRONMENT RELEVANT TO ICFR

SSHRC recognizes the importance of setting the tone from the top to help ensure that staff at all levels understand their roles in maintaining effective systems of ICFR and is well equipped to exercise these 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's main entity-level controls currently in place and relevant to ICFR are set out below.

2.1 Key positions, roles and responsibilities

Below are SSHRC's key positions and committees with responsibilities for maintaining and reviewing the effectiveness of its system of ICFR.

Key Position/ Committee	Roles and Responsibilities
President	• As Accounting Officer, assumes overall responsibility and leadership for the measures taken to maintain an effective system of internal control. • Oversees the day to day operations of the organization.
Chief Financial Officer (CFO)	• 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.
Chief Audit Executive (CAE)	• Reports directly to the President and provides assurance through periodic risk-based internal audits which can be instrumental to the maintenance of an effective system of ICFR.
The Council	• Meets regularly to advise 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	• Assumes the responsibilities assigned in the by-law to exercise the powers of Council between meetings. • Provides strategic oversight on human resources policy.

Nominations Committee of Council	• Makes recommendations to Council on governance matters and the composition and membership of Council and its committees.
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). • Reviews and recommends for the President's acceptance the annual audited financial statements of SSHRC. • Engages with management, as applicable, on risk-based assessment plans and associated results related to the effectiveness of SSHRC's ICFR system.

2.2   Key measures taken by SSHRC

SSHRC's control environment also includes a series of measures to equip its staff to manage risks well through raising awareness, providing appropriate knowledge and tools as well as developing skills. Key measures include:

- An internal audit of the implementation of the Policy on Internal Controlundertaken in 2012/13;
- A clear oversight structure with reporting lines and clear terms of reference for each committee;
- Annual performance agreements which clearly set out financial management responsibilities;
- A training program and communications in core areas of financial management;
- Periodically reviewed and updated delegation of financial signing authorities matrix, clearly communicated and available to staff;
- An up-to-date, corporate risk management framework including corporate risk profile, financial management and oversight risks as well as risk ownership and mitigation strategies;
- A risk based audit plan, recommended for approval to the President by the IAC;
- An IMIT strategic plan;
- Clear guidelines on authorities and compliance with S. 32, s. 34 and S. 33 of the Financial Administration Act;
- A Human Resources Portal with information on HR related issues, and a calendar of courses and offerings available to all employees on the Intranet; and
- Documentation of main financial transaction business processes and related key risk and control points to support the management and oversight of its system of ICFR.

3 ASSESSMENT OF SSHRC'S SYSTEM OF ICFR

3.1 Assessment baseline

In 2004, the Government of Canada commenced an initiative aimed at preparing organizations for control-based audits of their financial statements, thus placing reliance on well functioning internal controls. In 2009, Treasury Board approved the *Policy on Internal Control*. The Office of the Comptroller General is taking a tiered approach in implementing this Policy. The first wave included 22 of the largest departments. These organizations began formalizing their approach to managing their systems of ICFR, including readiness assessments and multi-year action. The second wave of organizations includes departments/agencies who currently have audited financial statements. SSHRC is a part of this wave.

Whether it is to support control-based audit requirements or those of the Policy on Internal Control, the objectives of an effective system of ICFR are to provide reasonable assurance that:

- Transactions are appropriately authorized:
- Financial records are properly maintained;
- Assets are safeguarded; and
- Applicable laws, regulations and policies are complied with.

Over time, this includes an assessment of design and operating effectiveness of the system of ICFR and an on-going monitoring program leading to continuous improvement of the organizational system of ICFR.

Design effectiveness means to ensure that key control points are identified, documented, in place and that they are aligned with the risks (i.e. controls are balanced with and proportionate to the risks they aim to mitigate) and that any remediation is addressed. This includes the mapping of key processes and IT systems to the main accounts by location as applicable.
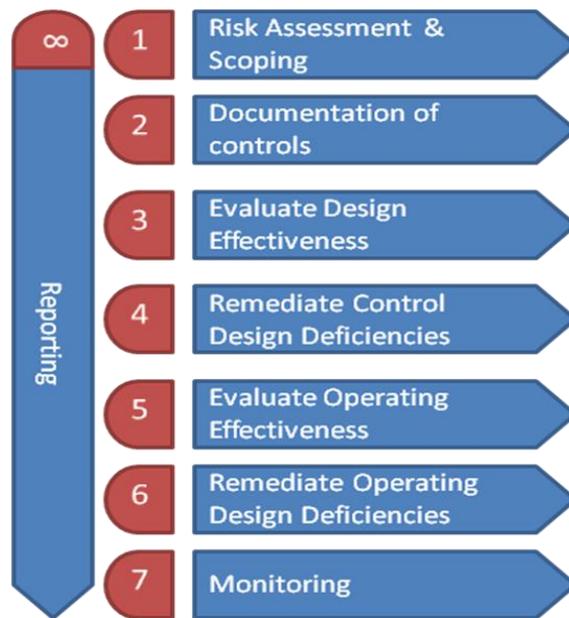
Operating effectiveness means that the application of key controls has been tested over a defined period and that any required remediation is addressed.

Ongoing monitoring program means that a systematic integrated approach to monitoring is in place, including periodic risk-based assessments and timely remediation.

Such testing covers all organizational control levels which include corporate or entity, general computer and business process controls.

3.2 Assessment method at SSHRC

SSHRC has adopted an eight step process to facilitate a common and objective view of the robustness of controls across the organization, based on guidance provided by the Office of the Comptroller General to organizations implementing the Policy on Internal Control.

SSHRC will undertake measures to assess its system of ICFR, with a focus on the following control levels:

Control Level	Scope
Entity Level Controls	Corporate Planning and Reporting • Governance Structure • Integrated Planning • Risk Management HR • HR Policies and Procedures • HR Planning • Values and Ethics • Public Service Disclosure Process Finance • Financial Policies • Resource Management Framework • Procurement Policies and Procedures\ • Information and Communication Oversight and Risk Management
Information Technology General Controls	• Access and Authorization Controls • Batch upload controls • Program and Application Changes • Backup and Recovery • Grant Management System

Control Level	Scope
	• End user computing

Business Process and Financial Reporting Controls	• Grants and Scholarships
	• Purchases, Payments and Payables
	    o Accounts Payable
	    o Travel for Committees
	    o Individual Travel
	    o Acquisition cards
	    o Travel cards
	    o Hospitality
	    o Common Payment Process
	• Payroll/Salaries
	• Interdepartmental Settlements
	    o Council-Initiated Process
	    o Other Department Initiated Process
	• Financial Reporting
	    o Year-End
	    o Period End

For each control level and significant business process, SSHRC will next undertake the following steps:

- Gather information pertaining to processes, risks and controls relevant to ICFR, including appropriate policies and procedures;
- Document the key processes with the identification and documentation of key risk and control points;
- Perform design testing e.g. conduct a walk-through of the documented processes and assess the alignment of controls to risks;
- Perform operational testing on the documented processes based upon the information gleaned from documentation and design testing;
- Implement remediation plans as required; and
- Develop and implement a monitoring approach and methodology.

4 SSHRC'S ASSESSMENT RESULTS

The following summarizes the key assessment results from the documentation, design and operational effectiveness testing completed by SSHRC as at 31st March 2013:

4.1 Documentation of Control Activities

SSHRC confirmed the existence of documentation related to Entity Level Controls and IT General Controls, Business Process Controls and Financial Reporting Controls. All documentation related to key controls has been established, completed or clarified:

Control Level	Documentation Requirements
Entity Level Controls	• Documentation completed
IT General Controls	• Documentation completed
Business Process Controls	• Documentation completed

4.2 Design Effectiveness Testing of Key Controls

When undertaking design effectiveness testing of the Business Process Controls, SSHRC identified and validated key controls with process owners; and assessed alignment of each key control with risk.

The results from the design effectiveness testing identified the need for the following:

Control Level	Design Effectiveness Requirements
Entity Level Controls	• Design effectiveness to be completed 2013/14 to allow full implementation of the policies, processes and controls.
IT General Controls	• Design effectiveness to be completed 2013/14 to allow full implementation of the policies, processes and controls.
Business Process Controls	• Design effectiveness completed 2012/13

4.3   Operational Effectiveness Testing of Key Controls

When conducting operational effectiveness testing of key controls, SSHRC implemented a risk-based testing approach and methodology that identified key controls to be tested over a defined period of time, including the selection of a sample, the test period and the method and frequency of testing.

The results from the operating effectiveness testing identified the need for the following:

Control Level	Operating Effectiveness Requirements
Entity Level Controls	• Operating effectiveness to be completed 2013/14 to allow full implementation of the policies, processes and controls.
IT General Controls	• Operating effectiveness to be completed 2013/14 to allow full implementation of the policies, processes and controls.
Business Process Controls	• Remediation completed or substantially advanced for five of eight recommendations made in 2011-12. Remediation to be implemented in 2013-14 for remaining three recommendations. • Payroll/Salaries – No remediation required. • Financial Close – Period End and Year End: ensure checklists are used and approved by appropriate financial authority.

4.4   Ongoing monitoring program

SSHRC will continue to ensure that controls are effective over time and seek opportunities to strengthen its entity level controls, taking into account the initial assessment as well as results from annual assessments and audits. SSHRC developed and implemented a well -integrated monitoring program to raise awareness and understanding of the organization's system of ICFR at all levels of the organization, equip staff with the knowledge, skills, and tools needed to maintain a robust ICFR, and continue to assess the status of ICFR on an ongoing basis..

5 SSHRC'S ACTION PLAN

5.1 Progress as of March 31, 2013

During 2012-13, SSHRC documented, and assessed the design and operating effectiveness of its key controls. Below is a summary of the main progress made by the organization as at 31st March 2013:

- Completed the operating effectiveness testing of financial close and payroll/salaries.
- Developed and implemented an integrated monitoring plan.

5.2 Action plan

Building on progress to date, SSHRC has completed year two of its multi-year plan to fully implement the requirements of the Policy on Internal Control and is positioned to complete the remaining assessment of its system of ICFR and implement ongoing monitoring in 2013-14. The work below outlines work to be performed under ICFR until 2013-14.

SSHRC's ICFR Action Plan

	2011-12				2012-13				2013-14			
	Documentation	Design Effectiveness	Operating Effectiveness	Ongoing Monitoring	Documentation	Design Effectiveness	Operating Effectiveness	Ongoing Monitoring	Documentation	Design Effectiveness	Operating Effectiveness	Ongoing Monitoring
Entity Level Controls												
Control Environment	Completed				Completed					✓	✓	
IT General Controls												
Financial Systems	Completed				Completed					✓	✓	
Business Process Controls												
Grants and Scholarships	Completed	Completed	Completed					Completed				✓
Purchases, Payments and Payables	Completed	Completed	Completed					Completed				✓
Payroll/Salaries	Completed	Completed					Completed					✓
Interdepartmental Settlements	Completed	Completed	Completed					Completed				✓
Financial Reporting	Completed	Completed					Completed					✓