Social Sciences and Humanities Research Council of Canada

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

Fiscal year 2014 - 15

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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 2014-15 *Departmental Performance Report* and the 2015-16 *Report on Plans and Priorities*.

2. Departmental system of internal control over financial reporting

2.1 Internal control management

SSHRC recognizes the importance of senior management leadership in ensuring that staff at all levels understand their roles in maintaining effective systems of ICFR and are 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 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 is responsible for measures taken to maintain effective systems of internal control. The President is the chief executive officer of the Council and has supervision over and direction of the work and staff of the Council.

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 VP 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 independent and objective assurance through periodic internal audits and consulting activities that are instrumental to the organization's operations and its effectiveness with respect to ICFR (risk management, internal controls and governance processes).

The Council – Collectively represents the academic research and private sector R&D communities in natural sciences and engineering, as well as other stakeholder groups in the Canadian innovation system. The Council's main responsibilities are to set the strategy and high level policies for SSHRC, and to review and evaluate performance.

Executive Committee – The Executive Committee exercises the functions of the Council between Council meetings and acts as a governance, human resources, risk management and oversight committee. The Executive Committee is composed of the President, the elected Vice-President and at least six other members (including the chairs of the standing committees) selected by the Council.

Standing Committee – Advise on specific policies and programs and oversee the work of selection committees. Distribute funds to the program elements and selection committees within their purview, the guidelines provided by Council and the funding envelope.

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) - Advises the president on the efficiency and effectiveness of SSHRC's risk management, as well as its internal control and governance frameworks and processes. To this

end, the committee oversees core areas of SSHRC's management, control, accountability and reporting, in an integrated, risk-focused and systematic way. The IAC meets four 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, approved by the Deputy Head, 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;
- 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 a quarterly 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 robust governance structure;
- A dedicated function 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;
- Corporate Risk Profile that is updated annually;
- Integrated planning, risk management and reporting process; and
- Development of a three year risked 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 accommodation 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.

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 $231.2 million ($228.7 million in 2013-14) 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 fiscal year 2014-15

The key findings and significant adjustments required from the current year's assessment activities are summarized below.

New or significantly amended key controls: In the current year, there were no significant amendments to key controls in existing processes which required a reassessment. Design and operating effectiveness testing was conducted on the key controls for entity-level controls (ELC) and information technology general controls (ITGCs) and all business process in the prior year. In 2014-15, SSHRC created a management action plan to remediate key control deficiencies following the ITGC and ELC assessment conducted in the prior year. Significant remediation efforts took place in 2014-15 and most high, medium and low design ITGC and ELC risk control deficiencies have now been remediated. The outstanding deficiencies are scheduled to be completed in 2015-16.

Ongoing monitoring program: As part of its rotational ongoing monitoring plan, the department initiated its reassessment of the financial controls within the business processes of grants and contributions by building an internal assessment tool designed to develop testing procedures which will assess the existence and operating effectiveness of the Grants and Scholarship internal controls as identified in the Council's current business process. The assessment of key business process controls has commenced and will be completed in 2015-16. As per SSHRC's ICFR Monitoring Strategy and Plan, the department has initiated the implementation of ongoing monitoring of the Grants and Scholarships business process in 2014-15 and the implementation of ELCs, ITGCs and the remaining business process controls in future years.

4. SSHRC's action plan

4.1 Progress during fiscal year 2014-15

During 2014-15, SSHRC continued to conduct its ongoing monitoring according to the previous year's rotational plan as shown in the following table.

Element in previous year's action plan	Status
Entity level controls: Implement remediations	• Design and operating effectiveness testing was completed in 2013-14. • Development of management action plans to remediate key controls deficiencies are complete. • Remediation of design and operating deficiencies substantially advanced. • Operating effectiveness testing will be conducted in 2016-17.

Information technology general controls: Implement remediations	• Design and operating effectiveness testing was completed in 2013-14.
	• Development of management action plans to remediate key controls deficiencies are complete.
	• Remediation of design deficiencies substantially advanced.
	  • All high risk items have been remediated or are on track to be remediated in 2015-16 except for one has been delayed due to implementation issues at central agencies
	  • All medium risk items have been remediated or are on track to be remediated in 2015-16.
	  • All low risk items have been remediated or are on track to be remediated in 2015-16 except for three, which will continue to be monitored while a remediation plan is put into place.
	• Progress in remediating the remaining deficiencies will continue to be monitored.
	• Operating effectiveness testing will be conducted in 2016-17.

Grants and scholarships: Rotational ongoing monitoring.	• Rotational reassessment completed for G&S and ongoing monitoring has commenced by creating an internal assessment tool.

4.2 Action plan for the next fiscal year and subsequent years

SSHRC is now entering its second year of the three year plan established in 2014-15. SSHRC's rotational ongoing monitoring plan over the next two 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.

Rotational Ongoing Monitoring Plan

Key control areas	Fiscal Year 2015-16	Fiscal Year 2016-17
Entity-level controls	Design and operational effectiveness testing complete, ongoing remediation	Yes
Information technology general controls under departmental management	Design and operational effectiveness testing complete, ongoing remediation	Yes
Grants and Scholarships	Yes	No
Purchases, Payments and Payables	Yes	No
Payroll/Salaries	No	Yes
Interdepartmental Settlements	Yes	No
Financial Reporting: Period End	No	Yes
Financial Reporting: Year End	No	Yes