

Financial Administration Manual (FAM)

Chapter 1014-3

Statement of Management Responsibility Including Internal Controls Over Financial Reporting

Identification

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Approval Authority This FAM Chapter is issued under the authority of the Director Financial Policy (DFP).

Enquiries Enquiries are to be forwarded to DFP through the functional financial chain of command.

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Overview

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| Purpose | <p>1. The purpose of this FAM Chapter is to describe the policy requirements for conducting an annual assessment of internal control over financial reporting in the Department of National Defence (DND) and the Canadian Armed Forces (CAF) pursuant to the Treasury Board (TB) <i>Policy on Internal Control</i>. This assessment will support the Deputy Minister (DM) and the Chief Financial Officer (CFO) in signing DND/CAF's Statement of Management Responsibility Including Internal Controls Over Financial Reporting (Statement of Management Responsibility), which provides assurance as to the reliability of the department's financial reporting.</p> |
| Context | <p>2. Parliament and Canadians expect the DND/CAF to be well managed with the prudent stewardship of public funds, the safeguarding of public assets, and the effective, efficient and economical use of public resources. They also expect reliable reporting that provides transparency and accountability for how government spends public funds to achieve results for Canadians.</p> <p>3. The DM is responsible for ensuring that an effective risk-based system of internal control is in place in the DND/CAF and is properly maintained, monitored and reviewed, with timely corrective measures taken when issues are identified. The CFO supports the DM by establishing and maintaining appropriate financial management including financial reporting and departmental accounts.</p> <p>4. Both the DM and CFO are required to sign the annual departmental Statement of Management Responsibility, which prefaces the departmental financial statements and which:</p> <ul style="list-style-type: none">a. Acknowledges the responsibility of management for ensuring the maintenance of effective departmental system of internal control over financial reporting;b. Acknowledges the conduct of an annual risk-based assessment of the system of internal control over financial reporting to determine its ongoing effectiveness;c. Acknowledges the establishment of an action plan to address any significant issues found as a result of the annual assessment of the effectiveness of the system of internal control over financial reporting; and |

- d. Includes a summary of the results of the assessment of the system of internal control over financial reporting along with the actions taken in response to any significant issues.
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Consequences 5. In instances of non-compliance, the DM of National Defence is responsible for taking corrective actions that are consistent with the TB *Framework for the Management of Compliance* with those responsible for implementing the requirements of this FAM chapter.

6. In support of the responsibility of the DM to implement the TB *Policy on Internal Control* and related instruments, the CFO or, in the case of a member of the CAF, the military chain of command, at the CFO's direction, must ensure corrective actions are taken to address instances of non-compliance with the requirements of this FAM chapter. Corrective actions can include requiring additional training, changes to procedures and systems, the suspension or removal of delegated authority, disciplinary action, and other measures as appropriate.

Losses of Public Money or Property 7. Individuals will be held responsible for any losses of Public Money or Property resulting from negligence, lack of controls or criminal acts. All losses shall be reported to the Commanding Officer (Level One Comptroller if in the National Capital Region), and to the Regional Departmental Accounting Office (RDAO) Comptroller.

8. Individuals are reminded that the *Financial Administration Act* (FAA) Sections 76 to 81 (Civil Liabilities and Offences) as well as the *Criminal Code* Sections 121 – Frauds against the Government, 122 – Breach of Trust, 322 – Theft and 380 – Fraud may apply and they should be familiar with the TB *Directive on Losses of Money or Property*.

Document Retention 9. All supporting financial documentation, such as contracts, receipt documents, invoices, emails, Defence Resource Management Information System (DRMIS) transactions, FAA certifications and all other relevant documents in both paper and electronic form must be retained for a minimum of current year plus six years as per the Library and Archives Canada, Section 1, Part 4 – Comptrollership Function of the Retention Guidelines for Common Administrative Records of the Government of Canada. When criminal, disciplinary or recovery action is taken, all documentation must be retained and protected for six years after the process is completed. For additional information on the retention and disposition of information resources of

business value, refer to the Defence Subject Classification and Disposition System (DSCDS).

10. Unless otherwise directed by the RDAO Comptroller, all original supporting documents are to be retained by the office performing [FAA Section 34](#) certification. An exception is the original contract which for audit purposes must be retained by the individual who exercised the transaction authority. Documents supporting [FAA Section 33](#) certification shall be retained by the office that performed the [FAA Section 33](#) certification. Life cycle management of information resources of business value continues to apply regardless of the movement of staff, managers or organizational changes.

Responsibilities

General

11. The following table identifies the responsibilities related to the Statement of Management Responsibility.

The...	Shall be responsible and accountable for:
DM	<ul style="list-style-type: none">a. Monitoring compliance with the <i>TB Policy on Internal Control</i> and its supporting directives and standards through periodic audits and other reviews to ensure their effective implementation;b. Ensuring that appropriate and timely action is taken to address any significant issues relating to the departmental system of internal control;c. Providing any reports or information on the departmental system of internal control as requested by the Comptroller General; andd. Engaging with the Departmental Audit Committee, as applicable, on risk-based assessment plans and associated results related to the effectiveness of the departmental system of internal control over financial reporting, as required by the <i>TB Policy on Internal Control</i>.
CFO	<ul style="list-style-type: none">a. Ensuring the maintenance of an effective departmental system of internal control over financial reporting;b. Leading the establishment and execution of an

	<p>assessment plan for the effectiveness of the system of internal control over financial reporting with scope and timelines to be determined based on departmental risks and context;</p> <ul style="list-style-type: none"> c. Leading and coordinating the effective and timely production of the annual departmental Statement of Management Responsibility; d. Ensuring that the departmental Statement of Management Responsibility is supported by the appropriate evidence obtained annually from the execution of the assessment plan; and e. Supporting the DM in ensuring that appropriate and timely action is taken to address any necessary adjustments relating to internal controls over financial reporting.
Departmental Audit Committee	Reviewing the departmental financial statements with management and advising the DM on any material concerns.
Level One Advisors	Providing in a timely manner data and/or comments with respect to the annex to the Statement of Management Responsibility prepared by Director Financial Controls (DFC).
Director Financial Accounting (DFA)	Preparing the Statement of Management Responsibility for inclusion in the Departmental Financial Statements.
DFC	Preparing an annual assessment of internal controls over financial reporting and related action plan for inclusion as an annex to the Statement of Management Responsibility as per the TB <i>Guideline for the Policy on Internal Control</i> .
DFP	Defining and developing the policy in regard to the Statement of Management Responsibility and providing corporate financial policy interpretation.

Definition

Internal Control over Financial Reporting

12. “Internal Control over Financial Reporting” is defined as the set of means that allow management and users of financial statements to have reasonable assurance that:
- a. Records which fairly reflect all financial transactions are maintained;
 - b. Recording of financial transactions permits the preparation of internal and external financial information, reports, and statements in accordance with policies, directives and standards; and
 - c. Revenues received and expenditures made are in accordance with delegated authorities and unauthorized transactions that could have a material effect on financial information and financial statements are prevented or detected in a timely manner. This includes providing reasonable assurance that financial resources are safeguarded against material loss due to waste, abuse, mismanagement, errors, fraud, omissions and other irregularities.

Financial reporting internal controls are a sub-set of the controls for financial management.

Submission Requirements

Statement of Management Responsibility

13. A pro-forma of the Statement of Management Responsibility is included in the TB Accounting Standard (TBAS) 1.2 – *Departmental and Agency Financial Statements*. This statement acknowledges the responsibility of management for internal controls over financial reporting. As well, a summary of the results of the assessment of the system of internal control over financial reporting, as identified in paragraph 4 d., is annexed to the Statement of Management Responsibility and provides users of the financial statements with summary information that demonstrates how well the departmental system of internal control over financial reporting is being managed through annual assessments and associated action plans.

14. The TB *Guideline for the Policy on Internal Control* describes the

form and content of the information to be included in the annex in support of the Statement of Management Responsibility.

Monitoring

Comptroller General

15. The Comptroller General is responsible for establishing a framework for the review of the TB *Policy on Internal Control* and supporting directives and standards.

References

References

- TB *Policy on Internal Control*
- TB *Guideline for the Policy on Internal Control*
- TB Accounting Standard 1.2 – *Departmental and Agency Financial Statements*