

Policy and Guidelines: CFO Certification on the Internal Control Framework over Financial Systems and Information

TPG24-08

15 April 2024

Acknowledgement of Country

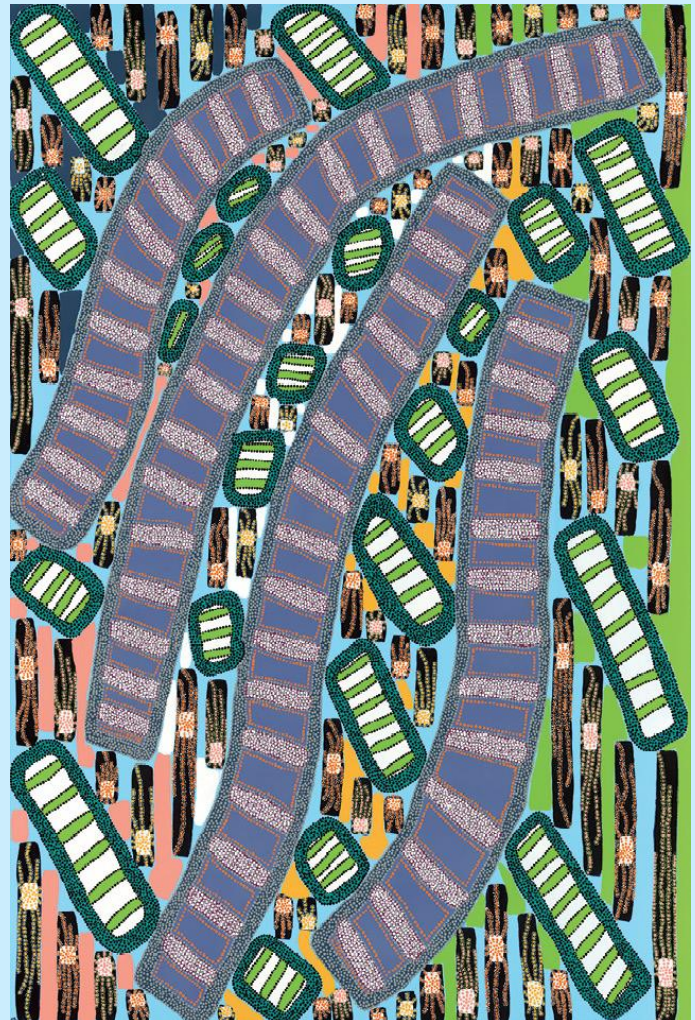
We acknowledge that Aboriginal and Torres Strait Islander peoples are the First Peoples and Traditional Custodians of Australia, and the oldest continuing culture in human history.

We pay respect to Elders past and present and commit to respecting the lands we walk on, and the communities we walk with. We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

We acknowledge the ongoing stewardship of Aboriginal and Torres Strait Islander peoples, and the important contribution they make to our communities and economies.

We reflect on the continuing impact of government policies and practices, and recognise our responsibility to work together with and for Aboriginal and Torres Strait Islander peoples, families and communities, towards improved economic, social and cultural outcomes.

Artwork:
Regeneration by Josie Rose



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Key information	
Treasury Policy and Guidelines (TPG) is relevant to?	<input checked="" type="checkbox"/> Government Sector Finance Agencies <input checked="" type="checkbox"/> General Government Sector <input checked="" type="checkbox"/> Public non-financial corporation <input checked="" type="checkbox"/> Public financial corporation <input checked="" type="checkbox"/> State Owned Corporations <input type="checkbox"/> Other
	<input checked="" type="checkbox"/> Executive agencies related to Departments
	<input checked="" type="checkbox"/> Subsidiaries of the NSW Government established under the Corporations Act 2001
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Review date	1 July 2025 – Following the first implementation year
<input checked="" type="checkbox"/> Replaces <input type="checkbox"/> Replaced by	TPP17-06 <i>Certifying the Effectiveness of Internal Controls Over Financial Information</i>
Issuing/Publishing entity	NSW Treasury
Related instrument(s)	<p><i>TPP20-08- Internal Audit and Risk Management Policy for the General Government Sector</i>- This policy supports the Accountable Authority's <i>Government Sector Finance Act 2018</i> (GSF Act) responsibility for establishing, maintaining and reviewing effective internal controls (s3.6).</p> <p><i>NSW Treasury's Agency Directions for Mandatory Early Close and Agency Direction Mandatory Annual Returns to Treasury</i>- These policies set mandatory requirements for agencies to provide Treasury their CFO Certification for the purposes of preparing the Total State Sector Accounts.</p>
Document approver	Andy Hobbs, Executive Director Financial Stewardship and Public Reporting
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Document contains	
<input checked="" type="checkbox"/> MANDATORY POLICY compliance set out by NSW Treasury.	
<input checked="" type="checkbox"/> RECOMMENDED POLICY reflecting best practice standards.	
<input checked="" type="checkbox"/> GUIDANCE/ADDITIONAL INFORMATION to provide clarity or explain requirements in detail.	

Revision history				
Document version number	Approval Date	Author	Approver	Description
1.0	Apr 2024	Financial Management Policy team	Andy Hobbs, Executive Director	<p>This policy replaces TPP17-06.</p> <p>The policy has been updated to a plain-English principle-based policy which requires all CFOs of GSF agencies to provide their Accountable Authority with an annual CFO Certification.</p> <p>It also reflects the requirements of the <i>Government Sector Finance Act 2018</i> (GSF Act).</p>

CFO Certification on the Internal Control Framework over Financial Systems and Information

Purpose

The purpose of this policy is to hold Chief Financial Officers (CFOs) of GSF agencies accountable to design, implement, continuously monitor and evaluate throughout the year a risk-based internal control framework over their financial systems and information. This is to:

1. ensure early identification of control weaknesses and deficiencies related to financial information and reporting that may lead to financial reporting errors,
2. support Accountable Authorities (AAs) fulfil part of their *Government Sector Finance Act 2018* (GSF Act) responsibility for establishing, maintaining and reviewing effective internal controls (s3.6), in relation to their responsibility over financial information and the preparation of financial statements (GSF Act s7.5),
3. support the Objects of Part 7 of the GSF Act, “Reporting”, relating to promoting transparency and accountability and ensuring financial information supports informed decision making (GSF Act s7.1(2)), and
4. ensure high quality financial information and reporting that is a fair presentation of financial position and performance, and is relevant, reliable, comparable and understandable (AASB 101).

Overview

This policy mandates that CFOs of all GSF agencies are required to provide their AA an annual letter of Certification, the CFO Certification, that:

- acknowledges their responsibility for designing, implementing, continually monitoring and evaluating the operation of the risk-based internal control framework over the GSF Agency’s financial systems and information, and
- certifies the effectiveness of the operation of the internal control framework over financial systems and information throughout the financial year, and summarises any control weaknesses and deficiencies, their potential impacts on financial systems or information, and any remedial action plans, including mitigating controls.

CFOs perform the first line function in the *IIA’s Three Lines Model*. CFOs are responsible for owning and managing risks associated with financial information and systems, including having in place processes to ensure controls are working effectively.

An internal control framework over financial systems and information is an intentionally designed organisation of internal controls to mitigate risks to the quality of financial information, and to provide

reasonable assurance over the accuracy of the financial systems and information. It includes measures and activities such as policies, procedures, processes and systems.

High quality financial information is essential to support budgeting and resource allocation decisions. An effective internal control framework over financial systems and information protects the quality of financial information and therefore ensures decisions are made based on accurate and reliable information. Not only is the quality of the agency's financial information important at an agency level, it is also important for whole of sector resource allocation decisions.

An effectively designed and operating internal control framework over financial systems and information will support the CFO in ensuring that the agency's financial information is relevant, reliable, comparable and understandable, and that financial reports present fairly in all material aspects of the agency's financial position and performance. It will also support the CFO in ensuring the information the agency submits to Treasury to prepare the Total State Sector Accounts (TSSA) result in a TSSA that presents a true and fair view for the State.

Leading guidance for the sector on internal control frameworks can be found in publications by the Committee of Sponsoring Organizations of the Treadway (COSO) - [Internal Control | COSO](#).

Application

This policy applies to all GSF Agencies.

GSF Agency has the same definition as 2.4 of the GSF Act.

Transitional arrangements

For agencies in scope for TPP17-06¹, this policy first applies to CFO Certifications covering the financial year beginning 1 July 2024. Where significant implementation changes are required, these agencies may choose to comply from the financial year beginning 1 July 2025.

For newly in-scope agencies, this policy first applies for CFO Certifications covering the financial year beginning 1 July 2025.

Separate Treasury guidance on the financial reporting arrangements for Crown Land Managers and Common Trusts are expected to be published soon. These should be considered when available.

¹ Refer to published list - Table A4.1 from [2023-24 Budget Paper No. 1 - Budget Statement - Appendix A4 - Classification of Agencies \(nsw.gov.au\)](#)

1. CFO Certification on the internal control framework over financial systems and information

Mandatory

- 1.1 The CFOs of all GSF agencies are responsible to design, implement, continuously monitor and evaluate throughout the year a risk-based internal control framework over their financial systems and information. This policy establishes this responsibility to assist AAs fulfil part of their responsibilities under the GSF Act.
- 1.2 CFOs of all GSF agencies must provide their AA a signed letter of certification (the CFO Certification) before the financial statements and reporting are finalised each financial year. The CFO Certification must:

- 1.2.1 acknowledge the CFO's responsibility to design, implement, continuously monitor and evaluate throughout the year a risk-based internal control framework over their financial systems and information,
- 1.2.2 confirm, to the best of the CFO's knowledge and belief, how effective the internal control framework over financial systems and information was for that financial year,
- 1.2.3 include a summary of internal control issues that clearly communicates any internal control weaknesses and deficiencies identified during the financial year, that includes the potential impact, the planned course of remedial action, and if the issue was noted in prior years.

Recommendation

- 1.3 CFOs should agree the structure and content of the CFO Certification, and what supporting evidence and information (see part 3) is expected, with the AA prior to start of the financial year.
- 1.4 Where applicable, the CFO should provide the Audit and Risk Committee (ARC) a copy of the CFO Certification, along with supporting evidence and information, in order to support the ARC's oversight responsibility of the agency's financial information, as established by TPP20-08.
- 1.5 The CFO should continuously monitor and evaluate the internal control framework against the annual program (see part 2), to support early identification of control weaknesses and deficiencies related to financial information and reporting that may lead to financial reporting errors.
- 1.6 The CFO should update the AA partway through the financial year on performance against the annual program (see part 2).

Guidance

- 1.7 Where this policy provides a 'recommendation' rather than a 'mandatory' requirement, CFOs should consider whether, and how, to most appropriately implement and scale policy recommendations to suit their agency's circumstances. Where a CFO determines not to apply a recommendation, or to modify application of a recommendation, the CFO must notify their AA and ARC (where applicable) of that fact and of the reasons for not applying or modifying the recommendation.
- 1.8 Where the AA is also the CFO, a separate CFO Certification is still required to demonstrate that the CFO has appropriately met the requirements of this policy, to design, implement, continuously monitor and evaluate the effectiveness of the entity's internal control framework over its financial systems and information.
- 1.9 The CFO of an entity can provide a single CFO Certification covering other entities which share the same governance and operating activities, including sharing a single internal control framework. These would include any wholly controlled entities. This also includes where the entities are covered by the same internal control framework but have different accountable authorities.
- 1.10 The CFO Certification may be signed on a good faith basis prior to ARC review and concurrently with internal or external audits. Any additional qualifications or further findings arising from ARC review, internal audit or external audit would be factored into the next cycle of review and certification.

Guidance

1.11 Appendix A provides an example CFO Certification.

2. Designing, implementing, continuous monitoring and evaluating the internal control framework over financial systems and information

To discharge their responsibility, it's critical that the CFO is actively involved in the design, implementation, continuous monitoring and evaluation of the internal control framework over financial systems and information to be reasonably assured that it is effective and so be able to complete the CFO Certification.

Recommendation

Designing and implementing the internal control framework over financial systems and information:

- 2.1 The CFO should design and annually review the internal control framework prior to the beginning of the financial year.
- 2.2 The CFO should ensure the design, review and any adjustment of the internal control framework over financial systems and information:
 - 2.2.1 is proportionate and risk-based,
 - 2.2.2 supports the achievement of the agency objectives,
 - 2.2.3 uses both preventative and detective controls,
 - 2.2.4 considers internal and external financial reporting obligations, including Annual Returns Checklist and early close procedures issued by NSW Treasury,
 - 2.2.5 is based on COSO 2013 Framework's 5 components and 17 principles of internal control,
 - 2.2.6 ensures that the roles and responsibilities of all staff involved have been clearly communicated to those staff, and
 - 2.2.7 considers the results of in-year and prior period annual programs, findings from internal and external audits, and changes in the agency's risk profile.
- 2.3 The CFO should consult with the ARC, the Chief Risk Officer (CRO) and the Chief Audit Executive (CAE) (the most senior officers responsible for risk and audit respectively) where applicable and agree the planned design for the internal control framework over financial systems and information with the AA.

The CFO's annual program to continuously monitor and evaluate the effectiveness of the internal control framework over financial systems and information:

- 2.4 The CFO, as a first line role¹, should develop an annual program to continuously monitor and evaluate the internal control framework over financial systems and information.
- 2.5 The CFO should engage with the CRO and the CAE as the second and third line roles¹ in planning the annual program prior to the beginning of the financial year. This acknowledges

¹ As referred to in the Institute of Internal Auditor's (IIA) Three Lines Model

Recommendation

the joint responsibility of CFOs and CROs over the internal control framework and the CAE's role in assuring the framework.

- 2.6 The CFO should consult with the ARC (where applicable) and agree with the AA the annual program.
- 2.7 The CFO should ensure the annual program reviews internal controls on an ongoing basis to ensure that they are adequate, proportionate and operating as intended, including:
- 2.7.1 monitoring identified control issues, and
 - 2.7.2 targeting high risk financial information and transactions.
- 2.8 The CFO should consider the findings of internal and external audit procedures when planning this annual program, but should not solely rely on these audit procedures to continuously monitor and evaluate the effectiveness of the internal control framework over financial systems and information.
- 2.9 The CFO should keep an on-going log of internal control issues, which should include all control weaknesses and deficiencies that are identified during the financial year through this annual program, other than those assessed to be 'low-risk' in accordance with the agency's risk management assessment. This log should include when and how the issue was identified, their potential impact on financial reporting, and the planned course of remedial action.

3. Evidence and information to support the CFO Certification

Recommendation

- 3.1 Results of the Annual Program - Primarily, the CFO's certification should be based on the results of the CFO's annual program to continuously monitor and evaluate the effectiveness of the operation of the internal control framework over financial systems and information. The CFO should provide evidence to the AA in support of the CFO Certification.
- 3.2 Management Certification - For agencies where line managers have significant input in setting budgets and accountability for managing financial resources, the CFO should ensure that line managers complete a tailored management certification checklist and take the results into consideration for their CFO Certification.
- 3.2.1 The CFO should decide the appropriate level at which to seek management certification based on the agency's financial accountability framework and an appropriate risk assessment. This should take account of the volatility and historical financial performance of the business area as well as its overall size.
 - 3.2.2 The CFO should ensure that the management certification checklists are written in plain English and with minimal financial jargon, to ensure it is easily understood by all contributing staff.
- 3.3 Outsourced and Shared Service Certification - For agencies that outsource or engage shared service providers to perform functions that may impact financial information and reporting, the CFO should collect certifications from the service provider on the design and effective operation of controls in the service organisation, including information technology and cyber security controls. These service provider certifications should be considered as evidence by the CFO in completing the CFO Certification, recognising their potential impact to the quality of the agency's financial information. Certifications collected from outsourcing or shared service providers should be at the same level of detail and evidence as that provided by the CFO to their AA.

Recommendation

3.4 Other Supporting Certifications – The CFO’s certification may be supported by certifications from other key staff within the organisation. This would apply where, under the entity’s governance arrangements, another member of staff holds responsibility for a portion of the internal control framework over financial systems and information rather than the CFO. This should first be agreed with the AA (as per clauses 2.3 and 2.6).

Guidance

3.5 In unusual cases, if a necessary supporting certification has been requested but not provided, this should be reported as a deficiency of the internal control framework with their AA and as part of the CFO certification.

Definitions

Term	Definition
Accountable Authority	For an agency, has the same meaning as in section 2.7(2) of the GSF Act, which is, unless otherwise specified in the GSF Act, the Secretary of the Department if the agency is a Department, or the head of the agency if the agency is not a Department.
Annual program	The Annual program to continuously monitor and evaluate the effectiveness of the internal control framework over financial systems and information, designed and reviewed by the CFO every year.
Audit and Risk Committee	The Committee established, including in accordance with the TPP20-08, to monitor, review and provide advice and guidance about the agency's governance processes, risk management and internal control frameworks and external accountability obligations.
CFO	For the purposes of this policy, the Chief Financial Officer (CFO) is the most senior position in the agency with the primary responsibility and accountability for the financial management of the agency. This primarily involves the preparation of external and internal financial reports and the delivery of other financial management support functions to support good decision making.
CRO	The Chief Risk Officer (CRO) is the most senior position in the agency with the primary responsibility and accountability for the risk management of the agency, including identifying and mitigating risk, developing and monitoring risk management strategies, and overseeing regulatory compliance.
CAE	The Chief Audit Executive (CAE) is the most senior position in the agency with the primary responsibility and accountability for the audit function of the agency, including monitoring and verifying the adequacy, effectiveness and correct operation of the internal control system, and sharing findings and relevant insights from audit projects.
CFO Certification	The annual certification made by the CFO of a GSF Agency as to the effectiveness of an agency's internal control framework over financial systems and information, that is provided to the Accountable Authority and is supported by evidence and information.
GSF Agency	The same definition as 2.4 of the GSF Act.
Internal control framework over financial systems and information (framework)	An intentionally designed organisation of internal controls, including measures and activities such as policies, procedures, processes and systems, implemented to mitigate risks to the quality of financial information, and intended to provide reasonable assurance over the accuracy of the financial systems and information that contribute to reliable and accurate financial reporting.
Log of internal control issues	An on-going log kept by the CFO of all internal control weaknesses and deficiencies identified during the financial year through the annual program, including when the issue was identified, the cause, their potential impact on financial reporting, and the planned course of remedial action.
Outsourced/shared service	Includes all the services provided by a third party, within or outside government, that has an impact on the financial information of the entity.

Appendix A - Example CFO Certification Template

Letter of Certification

To the Accountable Authority of [agency/agencies name]

For the Financial Year [20XX-XX]

Expression of opinion as to the effectiveness of internal controls over financial Information

I [Chief Financial Officer of agency name] acknowledge my responsibility for designing, implementing, continuously monitoring and evaluating throughout the financial year a risk-based internal control framework over financial systems and information.

I certify that, to the best of my knowledge and belief, during Financial Year [20XX-XX], [agency name] had an effective internal control framework over financial systems and information, ensuring high quality financial information and reporting.

OR

I certify that, to the best of my knowledge and belief, during Financial Year [20XX-XX], [agency name] had an effective internal control framework over financial systems and information, noting the internal control weaknesses below in the control issues summary that did not have a material impact on financial information and reporting.

OR

I certify that, to the best of my knowledge and belief, during Financial Year [20XX-XX], [agency name] had an ineffective internal control framework over financial systems and information, noting the internal control deficiencies below in the control issues summary that had a material impact on financial information and reporting.

My certification is based on the following supporting evidence and information which are attached to this Certification:

- Attachment 1: Results of the annual program to continuously monitor and evaluate the effectiveness of the operation of the internal control framework over financial systems and information
- [Attachment 2: Results of the Management Certification Checklists]
- [Attachment 3: Certifications of control effectiveness from service providers]
- [Attachment 4: Other certifications of control effectiveness]

Insert summary of entities sharing the single CFO Certification when applicable.

[This certification also is made on behalf of the following entities which share the same governance and operating activities, including sharing a singular internal control framework:

- Entity 1
- Entity 2
- Entity 3]

Summary of internal control issues for the financial year other than those considered as ‘low-risk’ according to the agency’s risk management assessment:

Identified control weakness/deficiency	Likely impact	Action plan to address	Timeframe	Was the deficiency noted in prior years? (Y/N)

[name]

Chief Financial Officer

[Date]

[Email and other contact information]

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