

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

Factsheet for Accountable Authorities

What is CFO Certification and why is it required?

- The CFO certification policy supports Accountable Authorities (AAs) in discharging their obligations under the *Government Sector Finance Act 2018* (GSF Act).
 - ‘CFO Certification’ is a written document signed by the Chief Financial Officer (CFO; the most senior person in an agency with the primary responsibility and accountability for its financial management) stating the effectiveness of an agency’s system of internal control over financial information.
 - The policy holds CFOs accountable to design, implement, continuously monitor and evaluate throughout the year, a risk-based internal control framework over their financial systems and information.
 - Internal control frameworks help to provide assurance over the effectiveness of financial systems and information. These frameworks impact the reliability and accuracy of financial information, including information provided to Treasury. An effective internal control framework ensures early identification of control weaknesses and deficiencies that may lead to financial reporting errors.
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How does the CFO Certification policy support Accountable Authorities?

- The GSF Act establishes a financial and resource management framework for the New South Wales government sector. AAs have a formal responsibility under the GSF Act and auditing and accounting standards to maintain effective internal controls.
- To support this, the policy requires CFOs of all GSF agencies (GSF Agency; an agency subject to the *Government Sector Finance Act 2018*) to provide to their AA a signed certification that acknowledges:
 - Their responsibility to design, implement, continuously monitor and evaluate an internal control framework for financial systems and information, and
 - Whether the internal control framework was **effective** throughout the year, and documents any control weaknesses and deficiencies, potential impacts and remedial actions.
- By requiring CFOs to certify the effectiveness of internal controls over financial information, this policy helps AAs discharge their obligations under the GSF Act, particularly:
 - section 3.6(1)(b), where “The accountable authority for a GSF agency is to establish, maintain and keep under review...(i) effective systems for risk management, internal control and assurance (including by means of internal audits) that are appropriate systems for the agency, (ii) arrangements for protecting the integrity of financial ... information”;
 - section 5.5(1), where AAs are required to ensure that expenditure of money for their agency is done in a way that is authorised, meaning in accordance with the law and under effective delegation;
 - section 7.6(4), where AAs are responsible for preparing a statement to be included in the annual GSF financial statement that are presented fairly and in accordance with Australian Accounting Standards, the Government Sector Finance Regulation 2018 and the Treasurer’s directions; and
 - section 4.5, where AAs are responsible for preparing information to be included in the Budget papers.

What does the draft policy require and recommend?

- The policy proposes to apply to all GSF Agencies. For the CFO to complete the certification (and assist the AA to prepare their statement), they are required to confirm their accountability for the internal control framework over financial systems and information, and responsibility to continuously monitor and evaluate it throughout the year.
- Before the year begins, the CFO should:
 1. Design or review the internal control framework and agree it with their AA and Audit and Risk Committee,
 2. They should also develop an annual program to continuously monitor the internal control framework, and engage with the Chief Executive Officer, the Chief Risk Officer, the AA and the Audit and Risk Committee in planning the annual program.
- At around the middle of the year, the CFO should update the AA to ensure continuous monitoring of the internal control framework against the annual program and support early identification of control weaknesses.
- After the end of the financial year, and before the full-year financial statements are finalised, the CFO must provide the CFO Certification and supporting evidence to their AA, noting any deficiencies.
- The policy also contains recommendations on how to design, implement, continuously monitor and evaluate the internal control framework and gather any supporting evidence. It includes some example materials for small agencies to adapt to support them in the process.

What changes under the draft policy?

- Material agencies have been required to provide a CFO Certification to Treasury since 2010. The current policy is TPP17-06 *Certifying the effectiveness of internal controls over financial information*.
- The updated policy reflects the change from the *Public Finance and Audit Act 1983* (NSW) to the GSF Act including extending the scope to **all GSF agencies**, to support AAs discharge their responsibilities under the GSF Act.
- The new policy clarifies that the CFO must provide their AA a signed letter of Certification **before** the financial statements and reporting are finalised each financial year. Previously the policy was not explicit about when the CFO was required to provide the letter of Certification.
- The new policy adopts a plain English and a principles-based approach, focusing on two core requirements supported by recommendations and guidance.
- Note, while this particular policy no longer requires it, agencies will still need to submit the CFO Certifications to Treasury as part of Total State Financial Reporting (TSFR) Mandatory Year-End process.

Where can I read and comment on the pre-final policy?

- The pre-final policy is available [here](#).
- This second round of Consultation runs until 9 February 2024.
- If you have any questions or would like more information, please email finpol@treasury.nsw.gov.au

What happens next? When will the new policy take effect?

- We aim to publish the new CFO Certification policy in the first quarter of calendar 2024.
- We propose that the policy will apply to all agencies in scope of TPP17-06 for CFO certifications covering the financial year beginning 1 July 2024, with an optional transition period for those with significant

changes. Newly in-scope agencies must comply from the following financial year. Feedback received during consultation will be considered and may result in different timeframes for implementation.