

# CFO CERTIFICATION TOOLKIT

A collection of resources to support agencies and staff to comply with TPG24-08 CFO Certification on the Internal Control Framework over Financial Systems and Information Policy

## *Phase 1*

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.

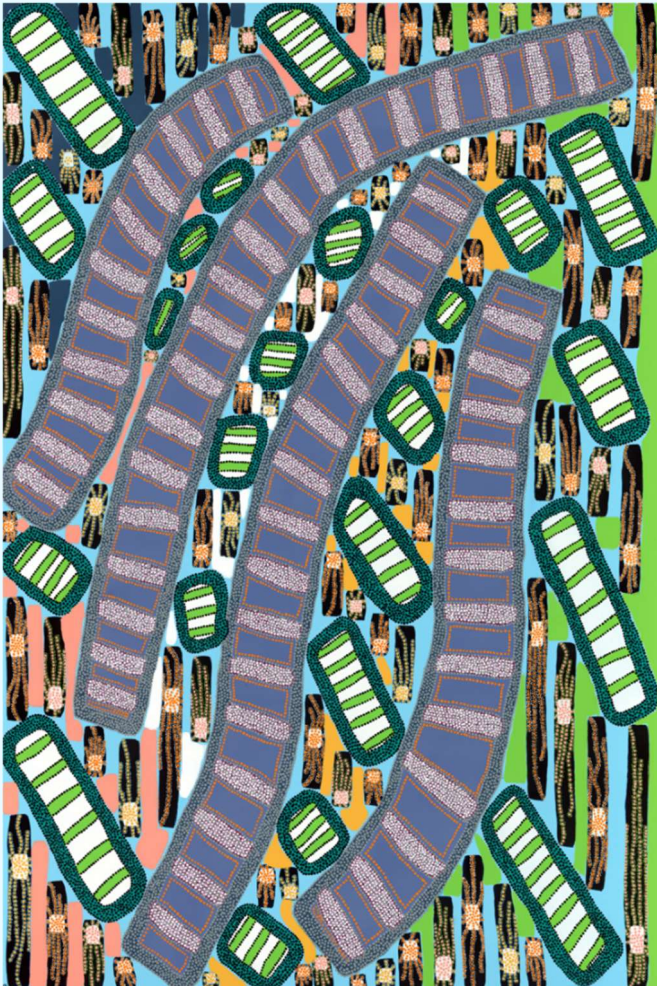
We celebrate the deep and enduring connection of Aboriginal and Torres Strait Islander peoples to Country and acknowledge their continuing custodianship of the land, seas and sky.

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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# 1

## Guidance for Accountable Authorities

# 1 Guidance for Accountable Authorities

## 1.1 Control Environment – Creating a Risk Culture

The five components outlined in COSO – the Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring activities – form the foundation of effective internal control systems. Of these, the Control Environment is crucial for successfully implementing the others. It falls upon the leadership and management of an agency to cultivate a strong risk culture to support a robust control environment. By promoting this culture and fostering such an environment, leaders lay the groundwork for sustainable growth, resilience, and long-term success in maintaining effective internal controls.

Below are guidelines for establishing the desired tone from the top to cultivate a strong risk culture:

- **The agency upholds integrity and ethical values as a core commitment.** The agency demonstrates integrity and ethical values by fostering a culture of honesty and transparency. Clear codes of conduct and ongoing ethics training support ethical decision-making and encourage reporting of concerns.
- **Agency management establishes structures, reporting lines, and responsibilities to pursue objectives effectively.** Roles and responsibilities are clear.
- **The agency prioritizes attracting, developing, and retaining competent individuals in line with its objectives.** Recruitment focuses on skills relevant to success, while training and development programs nurture employee growth and innovation.
- **The agency enforces accountability among individuals for their internal control responsibilities ensuring alignment with objectives.** Clear expectations, performance metrics, and consequences for non-compliance reinforce a culture of responsibility and accountability at all levels.
- **Where applicable, the board of directors and/or Audit and Risk Committee maintains independence from management and provides oversight for internal control development and performance.** These governance bodies evaluate control effectiveness, identifying deficiencies as needed to ensure alignment with organizational objectives.

## 1.2 What is CFO Certification and why is it required?

- TPG24-08 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.

## 1.3 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.

## 1.4 What does the policy require and recommend?

- The policy applies to all GSF Agencies. The certification is to confirm CFOs accountability for the internal control framework over financial systems and information, and responsibility to continuously monitor and evaluate it throughout the year, and to support the AA to fulfil part of their responsibilities under the GSF Act.
- Before the year begins, the CFO should:
  1. Design or review the internal control framework and if possible, agree it with their AA and share a copy with 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.

- It is best practice that the CFO update the AA partway through the financial year 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. This toolkit includes some example materials for agencies to adapt to support them in the process.

## 1.5 What changes under the policy?

- Material agencies have been required to provide a CFO Certification to Treasury since 2010. The old 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.
- Where the AA is also the CFO, a separate CFO Certification is still required to demonstrate that the CFO has considered about the effectiveness of the entity's internal control framework over its financial systems and information.
- 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.

## 1.6 When will the new policy take effect?

- The policy will apply to all agencies in scope of TPP17-06 for 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.

# 2

## Guidance for Line Managers



## 2 Guidance for Line Managers

This policy holds CFOs accountable (and support the Accountable Authority (AA) to fulfil part of their responsibilities under the GSF Act) for designing, implementing, continuously monitoring and evaluating a risk-based internal control framework over their financial systems and information throughout the year.

The checklist examples in Section 3 to 5 in the toolkit aims to help your agency CFO fulfil their obligations under the mandatory TPG24-08 CFO Certification on the Internal Control Framework over Financial Systems and Information.

This guidance document has been created to provide supporting information for line managers to understand the purpose of management certification and supporting certification.

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### 2.1 What are internal controls?

Internal controls consist of mechanisms, rules and procedures implemented by an agency to ensure the integrity of financial information, promote accountability, and ensure legislative requirements are met.

Examples of internal controls include segregation of duties, and reconciliation of expenses.

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### 2.2 Why are effective internal controls important?

Effective internal controls provide assurance to senior management that the financial information that they are basing decisions on is correct, and that actions are consistently being taken to minimise risks.

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### 2.3 Why do I need to complete management certification or supporting certification checklists?

Business areas which are not part of an agency's finance function are still responsible for upholding internal controls – this might include through ensuring expenses are reconciled in a timely manner and ensuring that employees are aware of options to confidentially report suspicious activity. For the CFO to provide assurance to the Accountable Authority that the system of internal controls is effective, it is important that they receive assurance from all business areas. Seek advice from your CFO or AA if you have doubt on whether a management certification or supporting certification is required.

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### 2.4 I don't believe that I am responsible for some of the areas on the checklists – what should I do?

Not all business areas will be responsible for completing all items on the checklist. If you do not undertake some of the activities on the checklist they should remain unchecked, and if you are uncertain what some of the activities mean, please discuss with your CFO or AA.

Sydney NSW 2000

GPO Box 5469  
Sydney NSW 2001

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