



**The Roles and Responsibilities of CFO in the Establishment
and Implementation of Internal Control of Enterprise**

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1

Leading the establishment and implementation of internal control of an entity is the responsibility of CFO

2

Grasping the key aspects of the establishment, management and maintenance of internal control and fully demonstrating the leadership roles and responsibilities of CFO in the establishment of internal control

3

Fulfilling the monitoring and servicing function of CFO in the implementation of internal control through the “five strengthening forces”

Expectations of capital market and regulatory authorities on the CFO

➔ Major internal control regulatory requirements in the PRC and the United States:

- In 2002, the United States issued the “Sarbanes-Oxley Act of 2002”
- In 2006, SASAC issued the “Risk Management Guidelines for Central Enterprises”
- In 2008 and 2010, the Five Ministries issued the “Company Internal Control Basic Standards” and “Company Internal Control Supporting Guidelines”

➔ Summary of the Internal Control Responsibilities of CFO:

- Take up the same management responsibility in the accuracy/reliability/completeness of disclosures and internal controls
- Apart from the accounting treatment and capital management, become an expert on the management and organisational design of the enterprise
- Take up the responsibility of the representation of the effectiveness of internal control, and manage and optimize the internal control of an entity

Gradual improvement of the internal control regulations inside and outside the PRC



Internal Control Standards in the PRC

Risk Management Standards in the PRC

Requirements for “Provisional Measures for the Management of Work Responsibilities of CFO in Central Enterprises”

➔ Provisional Measures:

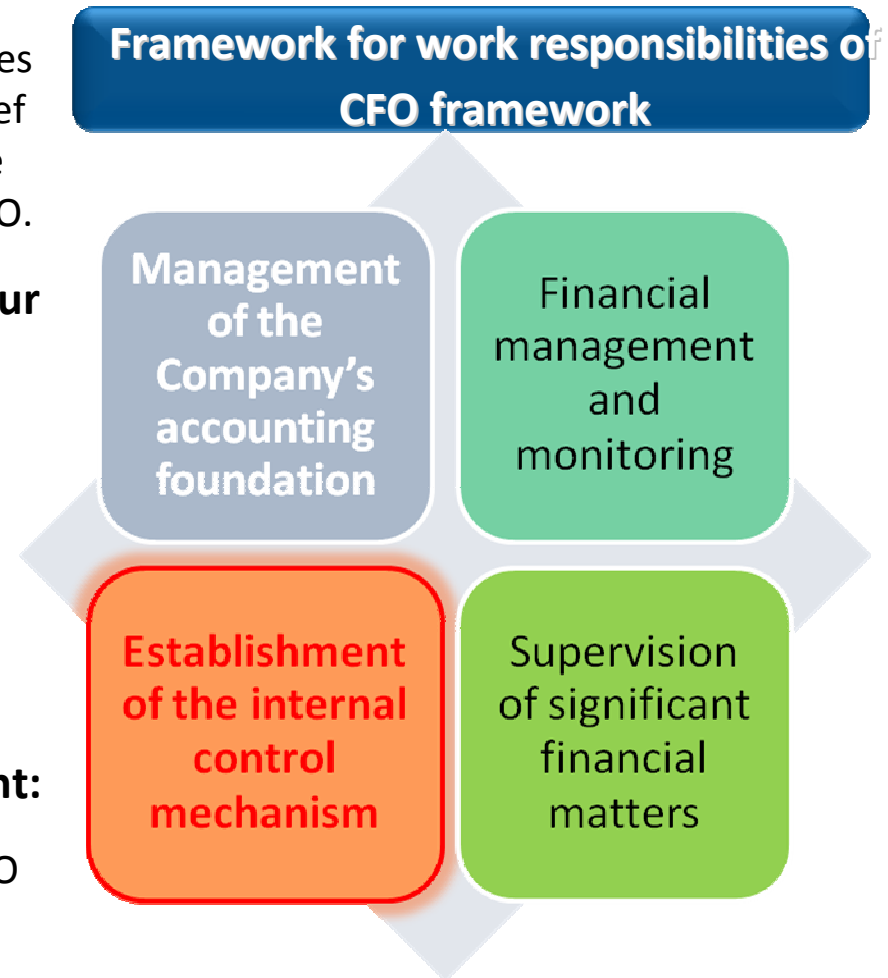
- In 2006, the SASAC issued the “Provisional Measures for the Management of Responsibilities of the Chief Financial Officer in Central Enterprise” (SASAC Rule 13), which clearly defines the responsibilities of CFO.

➔ Internal Control Responsibility is one of the four responsibilities:

- Management of the Company’s accounting foundation
- Financial management and monitoring
- **Establishment of the internal control mechanism**
- Supervision of significant financial matters

➔ Significance of the internal control requirement:

- Well-defined internal control responsibilities of CFO
- Ensure the CFO fulfilling the responsibilities



Internal control is the internal need for a company's development

➔ The driving force for establishment of internal control:

- The presence of internal control and its need for further development stems from the need of corporate strategy and corporate governance.

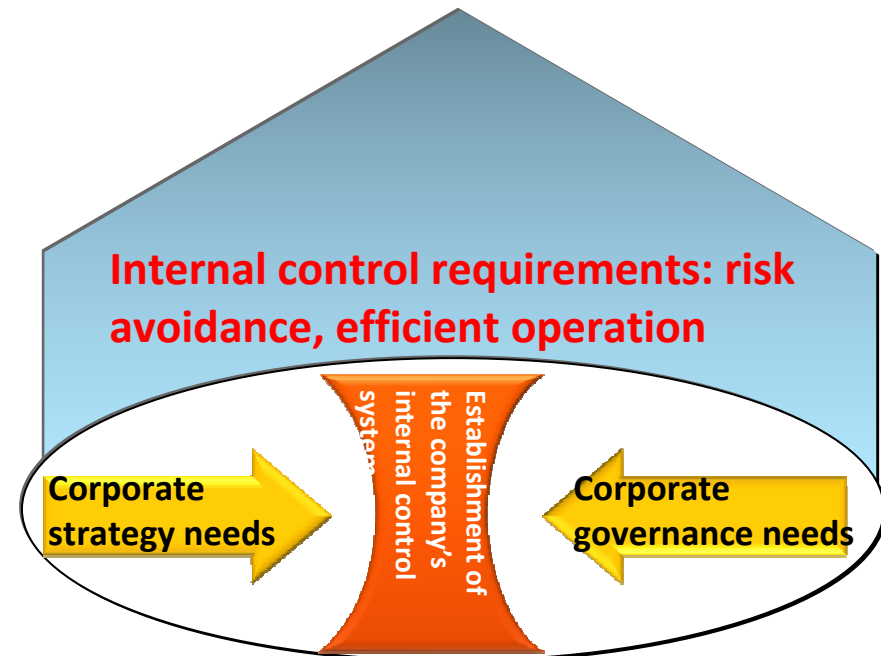
➔ Requirements of the establishment of internal control on management:

- Concern about the attitudes and behaviour of the company's senior staff (management, directors, board of directors) towards the establishment of internal control, prevent the failure of the company's internal control.
- Ensure that the company enhances the operation management, effectively control various types of risks within the company

➔ What are the roles of the CFO in internal control?

- **Focus on promoting the following tasks:**
 - To establish an effective internal control system
 - To avoid the company's operating risks
 - To improve operational efficiency and effectiveness

What are the roles of the Chief Financial Officer in internal control?



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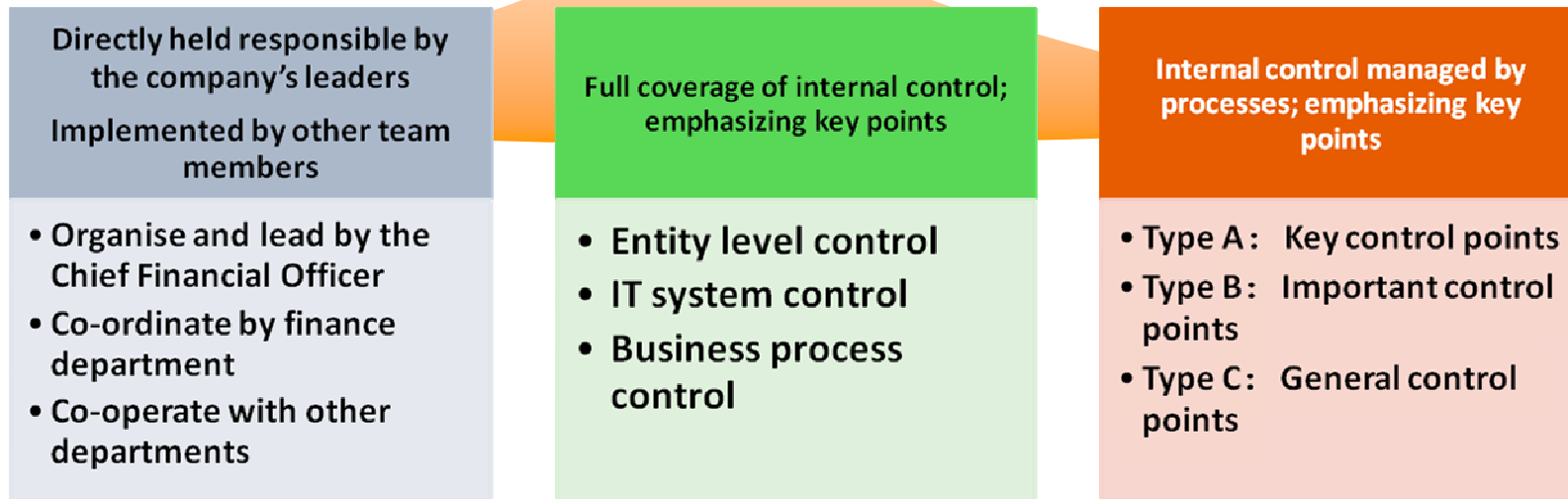
Fulfilling the monitoring and servicing function of CFO in the implementation of internal control through the “five strengthening forces”

1. Establish an internal control system with full coverage and key focus

Two key factors for the establishment of internal control

- Attached great importance by the company's management
- Clear strategic positioning of the internal control, properly manage the relationship between efficiency and effectiveness

Practice of China Telecom



Promoting the secure, healthy and sustainable development of the company is the fundamental objective of internal control management



2. Dynamic maintenance of the internal control system

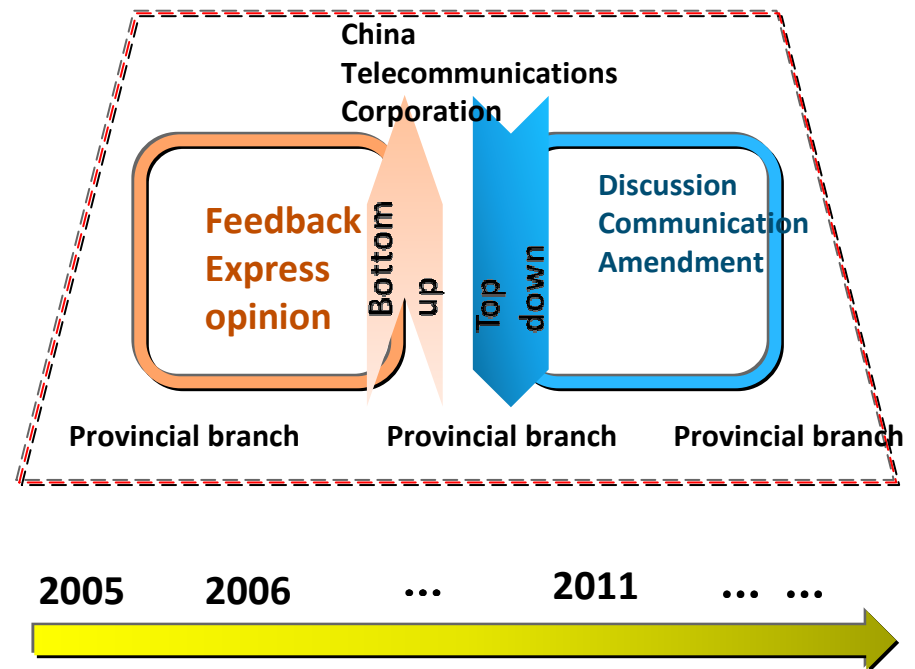
➔ Importance of the maintenance of internal control system:

- Following the changes of the company's internal/external environment, internal control manual needs to be updated continuously so as to adapt to the needs of new development.

➔ Practice of China Telecom:

- Maintenance of content: Internal control system、internal control processes、control points and authorization tables etc.
- Dynamic mode of maintenance:
 - Bottom up: Provincial branch expresses the need to revise the internal control system to China Telecommunications Corporation
 - Top down: After making the amendments, China Telecommunications Corporation will communicate with each provincial branch following the top down approach to form the new internal control manual.
- Content of daily maintenance: The internal control manual is centrally amended and maintained by China Telecommunications Corporation every year; each provincial/city level branch dynamically amends the implementation guidelines.

Daily/dynamic maintenance of the internal control manual by China Telecom



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3. To establish multi-dimensional evaluation of internal control

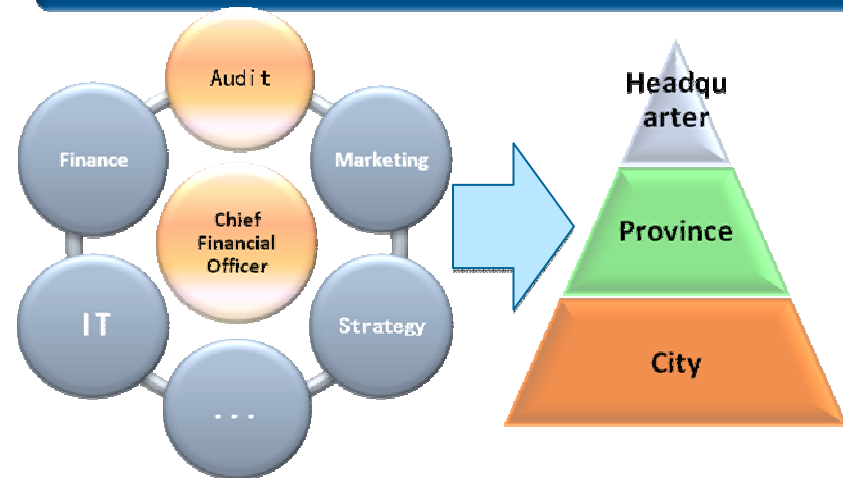
➔ Significance of the establishment of the internal control evaluation system:

- Internal control establishment and internal control evaluation are the two main aspects of internal control. The evaluation system aims at promoting continuous improvement of the internal control system

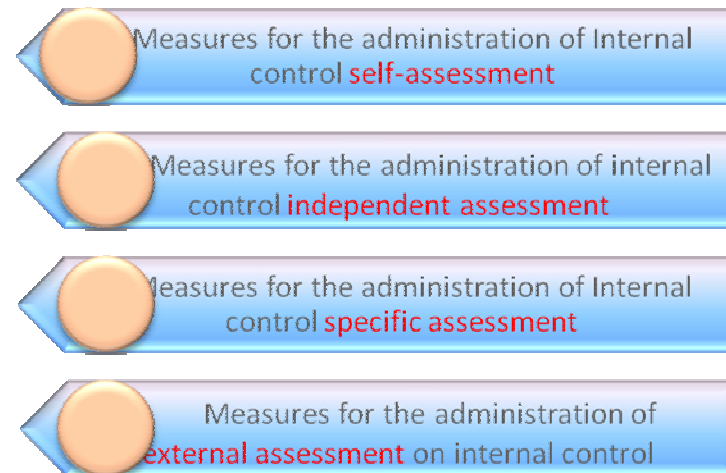
➔ Practice of China Telecom:

- Organised and led by CFO, the internal audit department coordinates functional departments to establish the internal control evaluation teams
- Three-tier : China Telecommunications Corporation 、 31 provincial branches、 city level branches establish their own internal control evaluation system.
- Establish four dimensional evaluation model:
 - 1、 Comprehensive self assessment on an annual basis
 - 2、 Independent assessment performed by the internal audit department at Group/provincial branch level
 - 3、 Specific assessment on key areas
 - 4、 Assessment performed by external auditors

Three-tier evaluation system of China Telecom



Four dimensions of the evaluation system of China Telecom



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4. Establish a closed-loop management system of internal control evaluation

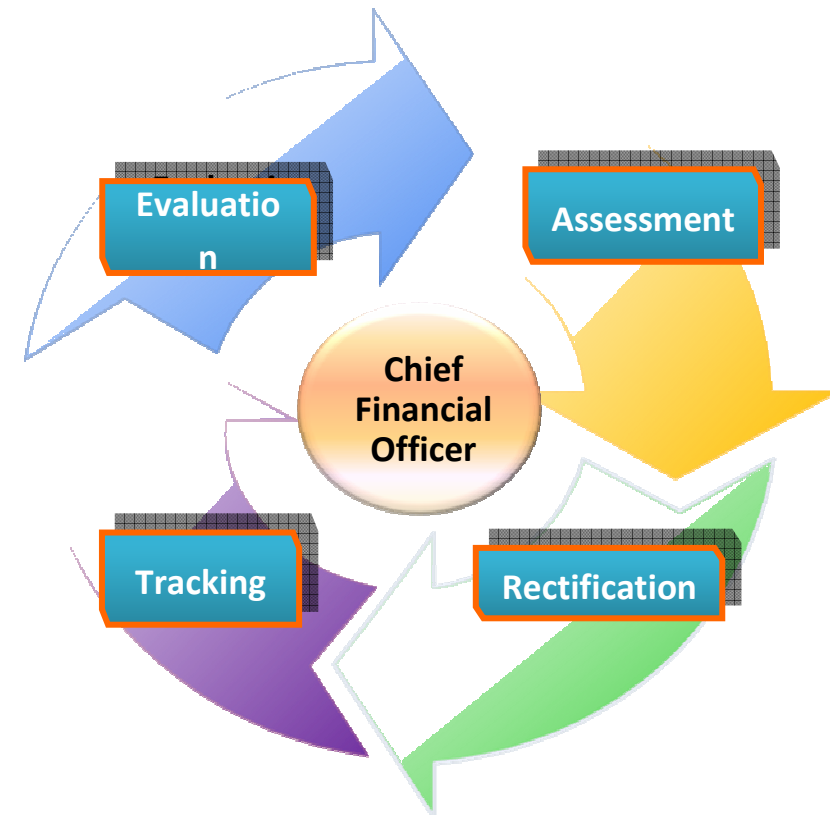
➔ Key points for the establishment of a closed-loop management system of internal control evaluation:

- Evaluation, assessment, tracking and rectification

➔ Practice of China Telecom:

- Carry out internal control evaluation, assessment, rectification and tracking
- Key points for closed-loop management:
 1. Internal control evaluation: Every functional department and the internal audit department inspect for any weaknesses in the design and implementation of internal control
 2. Internal control assessment: Deduct credits from annual performance assessment when material weaknesses or significant deficiencies are found in internal control
 3. Internal control rectification: Submit rectification reports to the internal audit department for any problems identified within the specific time
 4. Internal control tracking: Internal audit department tracks for internal control evaluation in the next year, which is included in this year's internal control assessment

Chart for the closed-loop management system of internal control evaluation



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5. Establish an open and multi-level training system

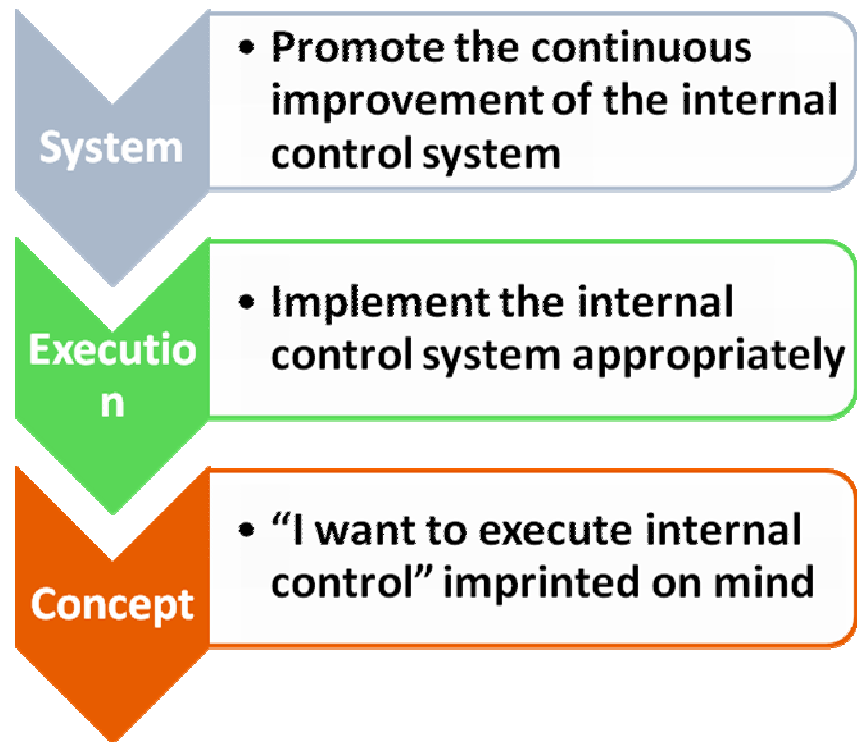
➔ Key points for the establishment of an internal control training system:

- Dynamic optimisation
- Multi-level implementation

➔ Practice of China Telecom:

- Finance, Audit and Human Resources Departments carry out trainings on internal control
- Dynamic management: Timely adjustments, continuous improvement and innovation based on the changes in the company's operating conditions
- Multi-level training:
 1. China Telecommunications Corporation regularly holds internal control trainings and "Optimising risks and internal control improvements" seminars
 2. Each provincial branch regularly holds trainings on internal control
 3. Each branch holds experience sharing conferences and symposium from time to time

Improving the effectiveness of internal control training system



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1.Strengthening the sense of integrity

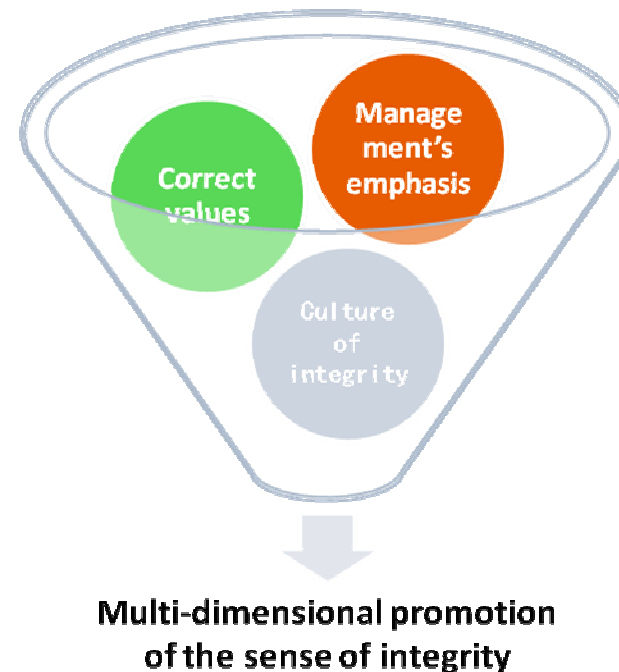
➔ Implication of strengthening the sense of integrity:

- The formulation and implementation of enterprise risk management and internal control system depends on the quality and ethical values of employees

➔ Key points for strengthening the sense of integrity:

- Internal control emphasized on management's implementation
- Multi-dimensional communication of the culture of internal control integrity
- Multi-dimensional communication of correct values

Key points for strengthening the sense of integrity



2. Strengthening full participation

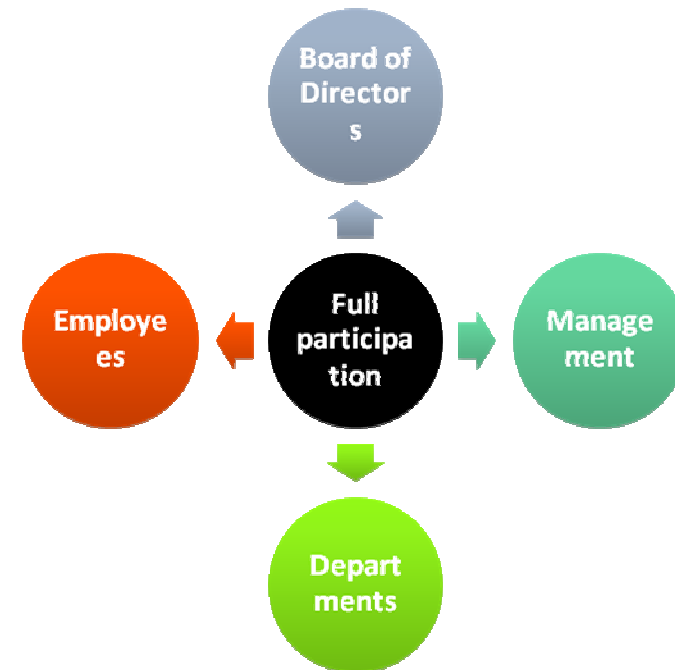
➔ Implication of strengthening full participation:

- Internal control is a system work which covers the entire enterprise, with inter-departmental and cross-professional characteristics. All employees have the responsibility to execute internal control

➔ Key points for strengthening full participation:

- Emphasis on full participation during the development stage of the internal control system
- Emphasis on full participation during the execution stage of the internal control system
- Emphasis on full participation during the evaluation stage of the internal control system

Full participation of internal control



3. Strengthening process control

➔ Implication of strengthening process control:

- If risks or deficiencies exist during any part of the company's whole economic process, until the issuance of the financial statements, the quality of the financial statements will be affected .

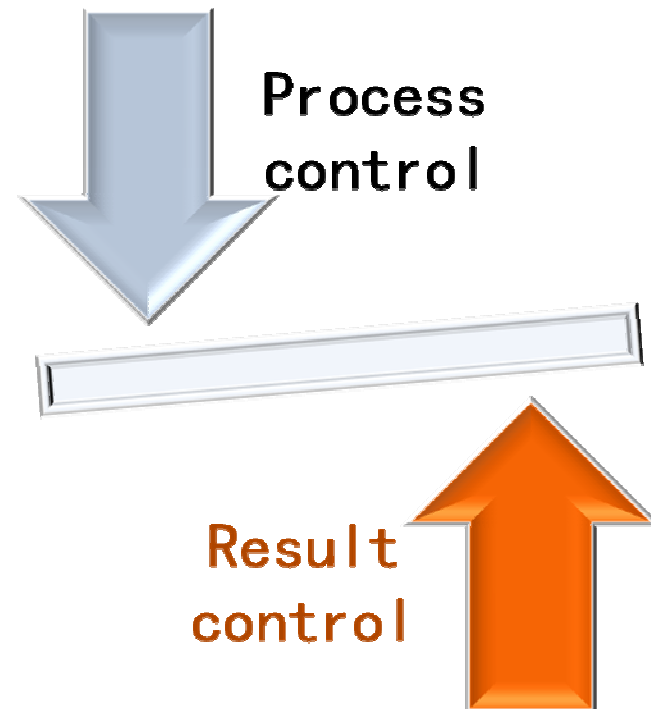
➔ Measures to strengthen process control:

- Every risk point of the company should be covered by control processes
- Records should be retained for the implementation of control points

➔ Important concept:

- If the internal control process complies with rules, we can reasonably assure that the result also complies with rules, and are reliable.

Equal importance of process control and result control



Promoting the secure, healthy and sustainable development of the company is the fundamental objective of internal control management

4. Strengthening monitoring and servicing functions

➔ Implication of strengthening monitoring and servicing functions:

- Primarily ensure the secure operation of the company
- Then ensure the healthy and sustainable development of the company

➔ Measures to strengthen the monitoring and servicing functions:

- Analyse the issues and weaknesses identified during the internal control evaluation and promote the optimisation of the internal control system
- Move forward the audit function to establish a warning mechanism and system for the risks of internal control
- Provide valuable recommendations from the aspects of improving corporate governance and enhancing risk management

Strengthen monitoring and servicing dual functions



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5. Strengthening IT system support

➔ Implication of strengthening IT system support :

- IT system is the technical safeguard for the implementation of internal control
- A comprehensive IT system can realise the closed-loop management of internal control
- A solid IT system can effectively prevent the risk of human manipulation

➔ Key points for strengthening IT system support:

- Both internal control establishment and evaluation require IT support and safeguard
- Precision of internal control to each position

➔ Practice of China Telecom

- Develop internally an internal control development system and internal control evaluation support system

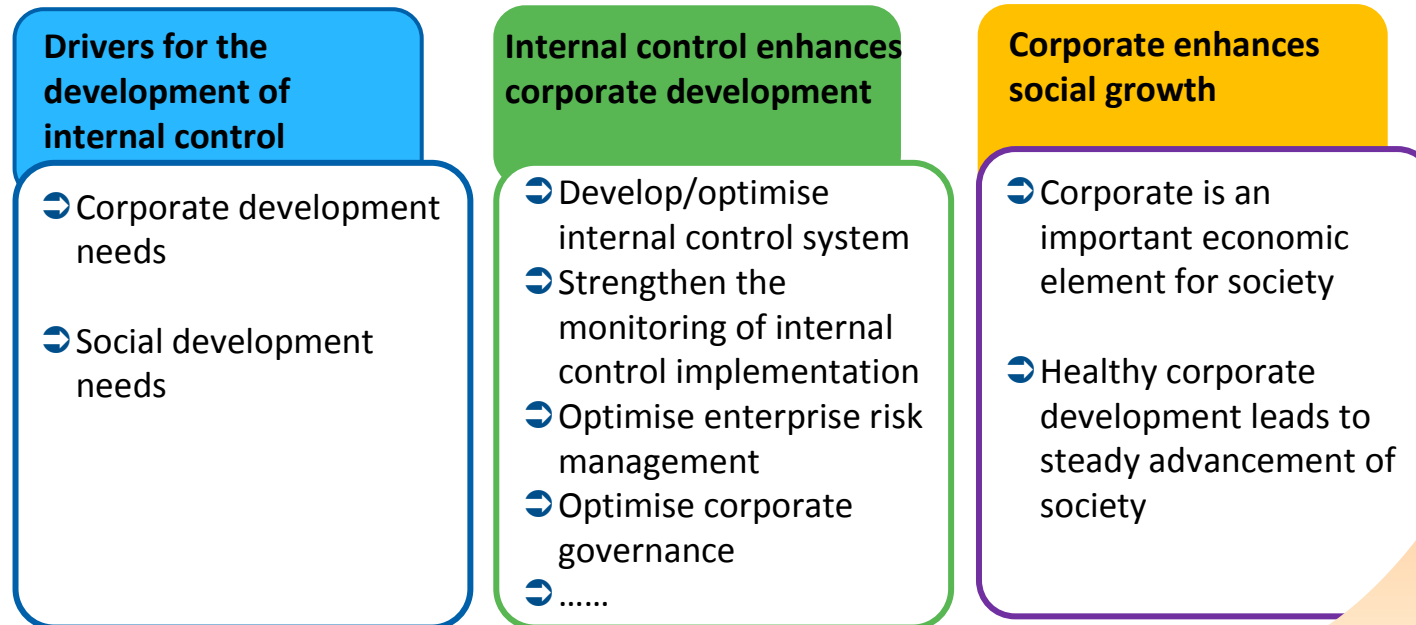
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Enhancing the healthy development of enterprises and society

The Chief Financial Officer plays an irreplaceable role in the establishment, execution and optimisation of the company internal control system

Enhancing healthy corporate development
Enhancing steady social advancement



Promoting the secure, healthy and sustainable development of the company is the fundamental objective of internal control management



Thank you!