

Size matters



HOW SHOULD COMPANIES WITH SMALL TREASURY DEPARTMENTS TACKLE OPERATIONAL RISK? **JULIET TEWUNGWA** LISTENED TO WHAT PRACTITIONERS HAD TO SAY AT A RECENT MEETING OF THE ACT'S LONDON REGIONAL GROUP.

Panel member and PwC partner Yann Umbricht told the assembled treasurers at the April event that, from an audit perspective, it is not just bottom-level operational controls that are important – the whole control framework needs to be considered. The process starts with ensuring the board understands what constitutes risk, and moves on to an examination of a range of risks: financial (such as FX), funding and liquidity, as well as operational risks such as lack of segregation of duties.

Management's control culture is an important driver. Management will need to assess risk in the first instance, and determine where appropriate levels of control should be. In other words, the risk appetite will need to filter from the board down to treasury control activities.

Most treasury functions will follow the same basic process – namely pre-dealing, dealing, confirmation, settlement and reporting (both management and financial). Two of the main operational risks that arise from these processes are the potential for fraud and financial statement misstatement. Panel member Michelle Price, associate policy and technical director at the ACT, described some real-life examples of malpractice she had encountered. These included a disgruntled employee changing trade data just before leaving the company, and an unrecorded interest rate swap. With the latter, because of a change in treasurer, the company was unaware it owed the bank money until the interest rate swap reset date.

The best way to avoid such pitfalls is to ensure the company has a strong control environment, with preventive controls (e.g. user access limits) being stronger than detective controls (e.g. bank reconciliations). The two instances given by Price could have been identified very quickly if the dealing function had been adequately segregated from the confirmation function – i.e. a third-party confirmation should be received independently of the dealing function, ensuring accuracy of records and completeness of trades.

Operational risk tends to

The panel

The panel was made up of Yann Umbricht, a partner at PwC, and Michelle Price, associate policy and technical director at the ACT, who has experience in auditing treasury operations. The panel was chaired by Fiona Crisp from Crisp Consultants.

be magnified in small treasury departments with three or fewer people, so how can duties be divided to minimise the risk? Price offered two possible structures for debate within a one-person and a three-person treasury team (see diagram).

Her suggestion of using the IT department as a systems administrator for the treasury management system (TMS) sparked a mixed response. It was pointed out that IT staff might not always understand what they are looking at and usually process requests without question. Moreover, IT staff may be better placed than finance staff to commit fraud by setting up a "ghost" user for a treasury system or even altering settlement instructions.

However, it was pointed out that the TMS administrator could be someone at a senior level within the IT department who would

understand the seriousness of the task at hand. Another option, suggested by a member, was for the company secretary rather than the IT manager to act as the TMS



Going places

THIS MONTH'S ROSTER OF ACT MEMBERS WHO HAVE MOVED ON IN THEIR CAREERS.

- **Giles Barling** AMCT, previously director at Barclays Corporate, has been appointed associate director at KPMG corporate finance – debt advisory.
- **Fraser Campbell** MCT has moved from head of business development, financial services, at O2, to director strategy, planning and control, global financial services, Telefonica, Madrid.
- **Mark Dixon** MCT, previously head of financial planning and analysis at Tate & Lyle, has been appointed assistant treasurer – financing at Jaguar Land Rover.
- **Joe Hili** MCT has left his position as director, management and finance, at the Organization for Security and Co-operation in Europe and has been appointed chief financial officer at Al Masane Al Kobra.
- **James Lilley** AMCT has joined CPP Group as senior manager – group forecasting. He was previously assistant treasurer at Drax Group.
- **Sean Malin** AMCT has joined Rabobank International as business analyst – IS&D finance IT. He was previously a business analyst at RBS GBM.
- **Faryal Maudarbocus** AMCT, previously treasury manager at National Express Group, has joined BHP Billiton as treasury front office specialist.
- **Tom Price** AMCT has been appointed group treasurer at SThree. He was previously treasury manager at Kazakhmys.
- **Patrick Shanley** MCT has been appointed adviser to the residential services sector at Saudi Telecommunications. He was previously managing director at TeleStrategy.
- **Alison Stevens** MCT has joined Phoenix Group as deputy group treasurer. She was previously senior capital markets manager at National Grid.
- **Keith Strachan** MCT, previously director, corporate treasury consulting at Deloitte, has been appointed director, treasury advisory, at Ernst & Young.
- **Ben Street** AMCT has moved within E.ON UK from his position as treasury dealer to join the London Array Project as project accounting manager.
- **Eileen Tindall** MCT, previously group treasurer at Cable & Wireless, has joined Arqiva as head of financing projects.
- **Paul Wilde** FCT has been appointed European treasurer and deputy group treasurer at New Edge Group. He was previously a consultant at Royal Bank of Scotland.

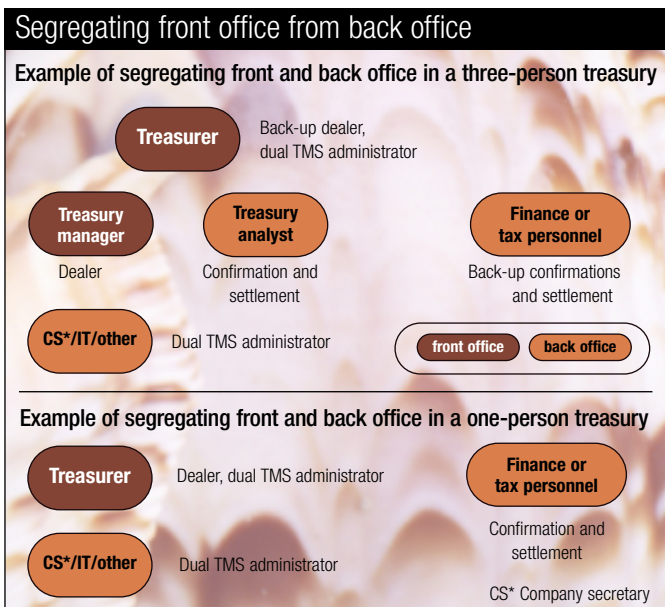


MEMBERS' DIRECTORY

Members' contact details are updated regularly at www.treasurers.org.
Email changes to Matthew Trickey: mtrickey@treasurers.org,
or phone +44 (0)20 7847 2557

CAREERS

For up-to-date treasury vacancies and careers articles, log onto:
www.treasurers.org/careers



administrator, although others argued that company secretaries might not always understand treasury. The key control is dual TMS administrators so that more than one person is required to set up or change a user profile.

The importance of the dealer also seeing the bank confirmation was pointed out, as the dealer is more likely to spot an error. Bringing the dealer into the confirmation loop would not replace the receipt of confirmation by a person independent of the dealing function but be in addition to it. Technology can assist here, with the dealer being automatically copied into electronic confirmations sent from the bank.

Most of the audience agreed that in general they found internal auditors unhelpful when it came to the segregation of duties issue: while internal auditors were good at pointing out the risk, they did not contribute to finding the solution.

Having a centralised policy is important for certain processes. For example, how can money in overseas operations be controlled, as foreign processes are likely to differ from those at home? Electronic banking has greatly reduced this risk, but other precautions can also be taken, such as minimising the funds kept in overseas accounts and excluding fax payment instructions in bank mandates.

One suggested method for reducing fraud and negligence was "terror from the top" – with the board sacking any treasury team that failed to ensure controls were followed. A downside of the executive terror model is that staff may be afraid to admit to mistakes. An alternative suggestion was to set benchmarks and key performance indicators (KPIs).

Essentially, the most effective approach of all is to choose the right person for the role in question, ensuring that they understand what they are dealing, authorising, confirming or reconciling. Problems arise where deals are complex, and an authoriser may not know what they are signing if they aren't at the appropriate level.

Juliet Tewungwa is ACT's executive administrator.
jtewungwa@treasurers.org
www.treasurers.org