# SAFE & SOUND

**WHAT IS EFFECTIVE CORPORATE GOVERNANCE IN TREASURY? PREM THAKUR EXPLAINS**

As custodians of a company's funds, corporate treasurers have a key role to play in managing risk and supporting corporate governance. Furthermore, because treasury functions are often global and handling a very substantial portion of a group's worldwide balance sheet, one wrong decision can have the effect of destroying that group's profitability and undermining its status in the eyes of investors. Corporate governance in treasury therefore relates to how the function's internal controls, decision-making and approval processes help an organisation to achieve its objectives while maintaining high ethical standards.

When creating a corporate governance framework, treasurers need to consider trends in the world economy, the dynamics of the financial markets, banking regulation and management objectives. They should also remember that overdependency on individuals, rather than failings in policies and procedures, is often the biggest cause of fraud.

A critical balance has to be established between the policies and constraints that are required by financial regulation and the board's ability to take decisions on business strategy that it considers to be in the best interests of shareholders.

Treasurers can support the board by putting in place a sound governance framework that follows these eight steps:

**1. Secure board approval of treasury policies and procedures.** The board reviews and agrees treasury policies and procedures, delegating appropriate oversight to the FD and the treasury team. These policies should cover: financing principles and key performance indicators; segregation of duties between the front, middle and back offices (this is particularly important in treasury); reporting requirements; credit limits; fundraising; investment; and, above all, management's commitment to governance.

**2. Draw up policies and procedures that cover all financial risks.** These risks will include credit, liquidity, market, operational and settlement risk. Authority should be delegated, with appropriate limits set. There should be a clear policy as to how capital is used, for example, in foreign-currency loans, foreign-currency convertible loans, euro convertible loans, hedging and investment. The treasury process manual should cover the authority matrix, including the process owner, checker and authoriser in any transaction, as well as the person who produces a settlement report to management.

**3. Lead by example.** Once policies and procedures are in place, management must show a commitment to them and demonstrate that fraud will not be tolerated.

**4. Maintain segregation.** For the purposes of checks and balances, the accounting and reporting team should be separate from the transaction team. Meanwhile, the treasury professionals who carry out the daily reconciliation of bank transactions should be separate from those who control the transactions. Separate teams should set up vendors on the system, process bills and make payments. For better control, payment transactions should be approved on a treasury management system (TMS) before being executed by treasury.

## ELEMENTS OF GOOD CORPORATE GOVERNANCE

The share prices of companies that are perceived to have good corporate governance typically trade at a premium, since they are attractive to investors throughout the world. A company that has sound governance normally has:

- **An active board and committed senior management oversight;**
- **Adequate policies, procedures and limits;**
- **Appropriate risk management, monitoring and measurement systems; and**
- **Comprehensive internal controls.**

**5. Enforce limits.** Any financial transactions that exceed a certain limit should be called back and verified by a manager other than the person who processed the transaction. This applies to payments, fund transfers, derivative deals and investments.

**6. Carry out stress testing.** Stress testing for extreme outcomes should be carried out on all risks on a monthly basis at least. Ownership for all treasury transactions needs to be defined and periodical reports should be run on individual financial products, with the aim of highlighting discrepancies.

**7. Monitor the balances.** Bank balances for each area unit should be reported directly to the centre of the group as well as to the internal control department so that they can be cross-validated.

**8. Review regularly.** The treasury function is very specialised, so it should be subject to regular review by internal and external audit, as well as senior management. Internal audit should review deal execution, post-deal documentation, bank reconciliations, cash management practices (including where physical cash is stored), payments, remittances and the TMS log.

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