CORPORATE GOVERNANCE HAS PLACED SEVERAL NEW REQUIREMENTS ON COMPANY DIRECTORS WHEN IT COMES TO IMPLEMENTING CONTROLS AND RISK MANAGEMENT PROCESSES. BUT IS THERE A ROLE FOR TREASURERS TOO AND CAN IT BE TURNED INTO AN OPPORTUNITY? **LIZ SALECKA** INVESTIGATES.

TREASURERS VITAL IN THE

The collapse of Enron and WorldCom has focused increased attention on the importance of corporate governance, with governments, company shareholders and stakeholders and the media calling for the application of greater authority to the way that company directors effect and manage risk controls.

In the UK, this has taken the form of expanded compliance with the Turnbull and the Higgs reports on corporate governance, both of which provide practical guidelines for company directors when assessing business risks and managing and implementing controls.

US-listed companies, meanwhile, face a tougher regime in compliance with Sarbanes-Oxley (SOX), which is being used to enforce corporate governance principles, and carries penalties for non-compliance. While most companies have already established practices based around SOX, the greatest test is yet to come with Section 404 that centres on the internal controls used in the financial reporting process. Coming into full effect next year, it calls on companies to conduct a self-assessment (involving internal stakeholders and an external audit firm) of the internal controls used to identify any gaps in compliance, and establish a process that fulfils the desired criteria.

ARE TREASURERS RESPONSIBLE? To date, much of the responsibility for the creation, implementation and ongoing testing of effective controls and risk management has fallen on the board. Indeed, as Nigel Turnbull, author of *Internal Control – Guidance for Directors on the Combined Code*, points out, his report was intended to provide board directors with considerations to bear in mind in relation to potential business risks – the onus being placed entirely on them to effect appropriate controls within their existing business processes.

However, increasingly, and more especially so given the more prescriptive and rigorous nature of SOX, corporate governance and the identification and implementation of company-wide controls, is becoming a wider management issue, with corporate treasurers also very much involved.

They now have a vital role to play – both in terms of ensuring the attainment of best practise within their own operations – and in seeking to ensure the implementation of appropriate risk management processes organisation-wide.

"The corporate treasurer today must be prepared to show initiative," says Philippa Foster Back of the Institute of Business Ethics, who points to treasurers' involvement at a wider, corporate level as another vital step towards safeguarding against unforeseeable, adverse events. "Quite often corporate treasurers are drawn into the corporate governance process as part of the management team. But, if they are not involved in this... then they should make sure they get involved."

She also believes that treasurers have a key role to play in ensuring best practise at two levels. In the first instance, they need to pay regular attention to the controls implemented within their own departments and to meeting the requirements of internal and external audits. "Looking at the control framework you have in place is like doing a self-health check," she explains. "It is a reminder to the treasurer and his team to revisit the controls in place and do a full risk assessment of the department on a regular basis."

BOARD CONTROLS TOO. Treasurers must also become fully aware of the risk controls that are being implemented organisation-wide by their boards' directors. Here, Foster Back points out that any shortcomings by a company's board in ensuring effective controls will have major repercussions for the treasury operation – and that this is why treasurers need to take a serious interest here.

"If you are working for a company that does not meet best practise requirements, then this might have a serious impact on your ratings," she warns. "If something goes wrong, then the whole assessment of your company by those watching it will be affected. The end result is that your credit will become much more expensive."

'IF CORPORATE TREASURERS ARE NOT INVOLVED IN THE CORPORATE GOVERNANCE PROCESS... THEN THEY SHOULD GET INVOLVED' **PHILIPPA FOSTER BACK**

QUEST FOR CONTROL

A NEW ROLE FOR TREASURERS. Bob Garratt, the author of two books on corporate governance, the most recent one being *The fish rots from the head – the crisis in our boardroom*, also believes treasurers should play a greater role in ensuring best practise, and that the opportunities presented to them by corporate governance can go further still.

He points out that the longer-term, strategic nature of treasury as a profession, coupled with treasurers' aptitude for dealing with 'hard facts' makes them ideal candidates to serve as chartered directors who provide greater input into the controls and risk management processes implemented by their companies.

"Corporate governance will lead to the rise of the chartered director," he says, pointing out that companies will increasingly look for chartered directors – a position achieved through two years of study with the Institute of Directors – to help them ensure best practise throughout their organisations. "At present we have about 250 chartered directors in this country, but within the next five to 10 years, we will have tens of thousands of them."

And he continues: "Most company directors are interested in today, the immediate short-term and the immediate past. They are less interested in the hard facts and making their strategies happen.

"They do not have the longer-term perspective that treasurers can apply to their work."

He adds that treasurers can play an equally viable role in providing audit committees with much of the relevant information needed to do their jobs. "Could the group treasurer be a regular advisor to the audit committee?" he asks.

TREASURERS AND SOX. Garratt's comments may come as interesting reading for those treasurers currently grappling with the requirements of Section 404 of SOX.

Seen as a reaction to Enron and other corporate failures caused by financial misreporting, SOX has wide-ranging implications for companies as a whole, and has also brought with it specific implications for corporate treasury operations, adding quite significantly to the tasks they must perform to ensure best practise.

"We are doing a lot of work right now to make sure that we are ready in time for Section 404 next year," says John O'Driscoll, Head of Tax & Treasury at BG Group plc. "There is now a much greater emphasis on the formal documentation of controls – this has to be applied everywhere including the corporate treasury function"

He continues: "Under SOX, the CEO and CFO now take full legal responsibility for ensuring that effective and relevant controls are all in place. They are looking to their direct reports to provide all the support information needed to ensure compliance."

O'Driscoll describes a greater focus on controls – from the treasury perspective, the verification of information – and ensuring that these controls are up to date, as the major new requirements of SOX.

"Our board has put in place a risk management process throughout the business and we do have a consistent approach," he says. "The finance committee of the Board sets all the parameters on managing foreign exchange risks, interest rate risks and refinancing risks, but this has always been the case."

A REAL WAKE-UP CALL. Similarly, Ian Ratnage, Treasurer at Rio Tinto, points out that compliance with SOX has added new pressures to those organisations with US listings.

"Our control processes will have to be tested annually," he says, pointing out that this is a major new requirement of SOX. "At the same time, in managing the treasury function we have to be sure that we have the appropriate processes in place to ensure best practise.

"We have not been able to carry on doing things the way they have always been done. We have had to evaluate everything. SOX is a real wake-up call."

Ratnage is quick to point out that ensuring compliance changes involves major efforts: "If we had the choice again I don't know if we would not opt for a US listing," he says. He, nevertheless, agrees that the changes brought about by SOX represents an opportunity for corporate treasury functions.

"We are now doing everything we used to do but in a more visible and more comprehensive way," he says. "This is how a good treasury function should operate from a prudential point of view."

Ratnage is also one of the first to admit that the stringent requirements of SOX may well find their way into Europe. This view is echoed by Foster Back: "It is most likely that some equivalent will be introduced in Europe at some point in time," she says.

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