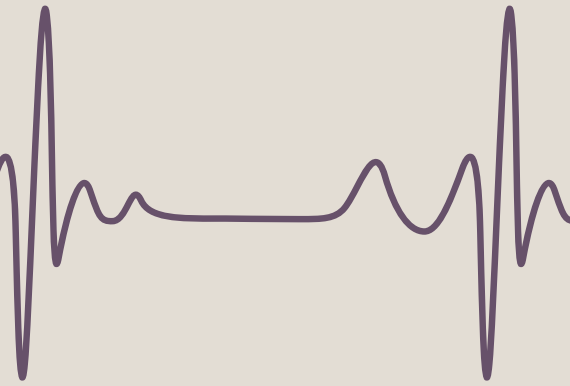


# A FINGER ON THE PULSE



## WHAT ARE THE KEY RISKS FACING CORPORATE TREASURERS IN 2013 AND HOW ARE INTERNAL AUDIT TEAMS RESPONDING TO THEM? IAN BEALE EXPLAINS

Every year, the CEB Audit Leadership Council (CEB Audit) runs a series of surveys and benchmarks involving our membership of more than 650 audit executives globally. In 2012, we asked our clients about:

- ◆ Their views on the key risks facing their organisations in 2013;
- ◆ The confidence that the chief audit executives had in the skills, knowledge and competencies of their team to audit the risks they have included in their 2013 audit plans; and

◆ The frequency with which they have reported issues in the key risk areas that they have reviewed in prior years.

### Key findings for treasurers

We reproduce below the main findings from two of the risk categories most relevant to corporate treasurers: macroeconomic and political risk; and finance and accounting risk.

In the macroeconomic and political risk category, the most striking result concerns the

risk caused by the continuing volatility in the eurozone. A significant gap exists between the importance of the risk to organisations and the confidence of chief audit executives in the ability of their teams to audit this area.

Interestingly, chief audit executives rate several other risks in the macroeconomic and political risk category as of only modest importance. They do not seem to be overly concerned by currency volatility, interest rate risk, or inflation or deflation risk, for

example. This may not be a view that completely aligns with the risk viewpoint of corporate treasurers, however, and chief audit executives may be underestimating the significance of macroeconomic and political risks.

Conversely, within the category of finance and accounting risk, chief audit executives report a degree of confidence in auditor skills that exceeds the level of importance of the associated risk areas. This suggests that many audit departments are continuing to use a traditional audit staffing model, hiring financial (ex external) auditors while their key risks have rightly broadened and diversified away from financial and accounting matters.

In contrast to the macroeconomic and political risk category, chief audit executives rate all the risk areas in the financial and accounting risk category as very significant. This is especially so for financial reporting and accounting practices. As chief audit executives are more likely to fully understand these topics, they may be inflating their potential risk significance due to that familiarity.

### FX

In addition to macroeconomic and financial risk, CEB research has identified the following FX challenges that treasury teams face:

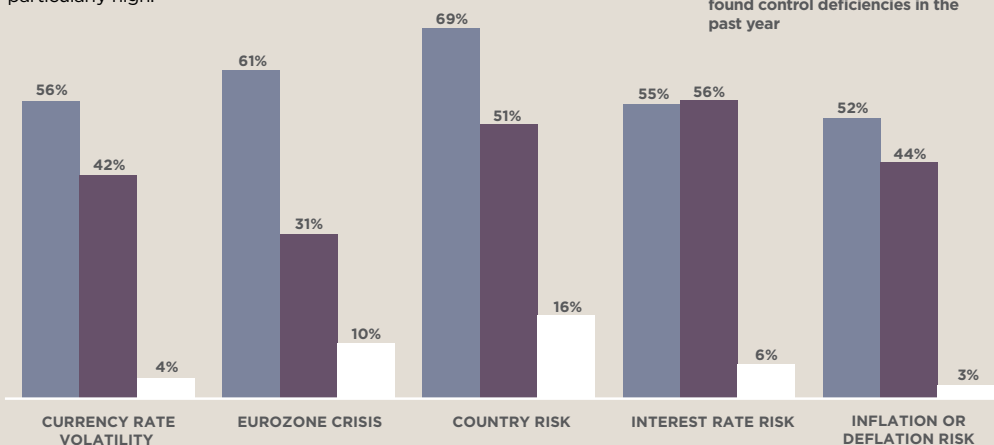
## MACROECONOMIC AND POLITICAL RISK FINDINGS

The individual risks in this category demonstrate low confidence, with relatively low deficiency findings.

- Compared with other risk areas, the importance ratings are not particularly high.

• It is possible that uncertainty and volatility in this area are driving a lack of confidence, which is not necessarily supported by historical performance of audits of these themes.

- Important and very important for the next 6-12 months
- Confident and very confident about audit department's ability to understand and audit
- Percentage of respondents who found control deficiencies in the past year



Note: These figures have been rounded

### MACROECONOMIC AND POLITICAL RISK

◆ FX volume is on the rise with average daily turnover increasing by 20% in recent years. As the majority of members in our recent financial risk management survey have more than \$1bn in FX exposure, currency rate volatility is a top priority for corporate treasurers.

◆ More than half (59%) of treasurers in a recent member survey indicated that they only had 'neutral' to 'no' confidence in the accuracy and exhaustiveness of their FX exposure data.

◆ When it comes to FX risk management-related challenges, uncovering 'hidden FX risks' in the business is one of the top areas of concern for treasurers. Hidden risks are often buried deep within the operations of the business in locally or regionally negotiated contracts.

**Other key findings**

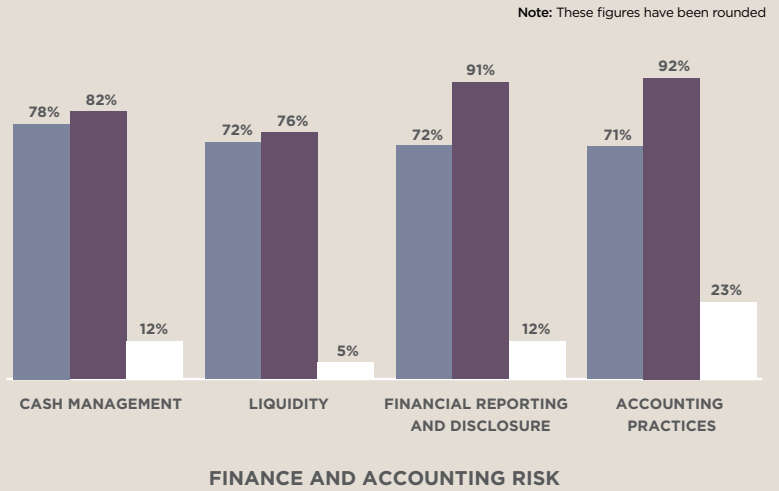
The tables below summarise other key findings from the surveys.

**FINANCE AND ACCOUNTING RISK FINDINGS**

**Accounting practices is the risk area with the highest confidence, but the largest number of deficiencies have been identified in this category.**

• Finance and accounting's scores may indicate that although internal audit is adept at identifying deficiencies, it needs to support the business in finding ways to improve processes and reduce weaknesses.

- Important and very important for the next 6-12 months
- Confident and very confident about audit department's ability to understand and audit
- Percentage of respondents who found control deficiencies in the past year



The upper table shows the five most important risk areas according to chief audit executives. It also shows their confidence in the ability of internal audit to understand and review these risks. The risk area with the greatest gap between importance and confidence is strategy

formulation and execution. This is due to both the relative newness of this area to internal audit and the fact it is critical that companies formulate and execute successful strategies. The lower table reports on those risk areas where internal audit teams most frequently reported control deficiencies.

**THE PULSE OF AUDIT - ABOUT THE RESEARCH**

Research by the CEB Audit Leadership Council has identified the key risks faced by organisations in 2013. The research also reports on the responses adopted by leading audit departments, together with their level of confidence in the skills of their audit teams, to effectively audit these risk areas and add value to their organisations.

Worryingly for treasurers, macroeconomic and political risks and information risk are the categories where chief audit executives lack most confidence in the skills of internal audit to add value. A volatile global economy and rapidly changing technological environment are two key drivers behind this low level of confidence.

Of all the risk categories, respondents have found the largest number of control deficiencies in operational risk. This is likely due to the percentage of time audit departments spend on operational audits. CEB Audit's 2012 Audit Budget and Headcount Survey shows that among 302 members, 28% of department audits are operational.

The specific risk area with the greatest number of deficiency findings reported by internal audit was third-party relationships. Increased reliance on third-party organisations (through outsourcing, joint ventures, franchising, consortiums, etc) exposes companies to both more and different types of risk. Also, they may lack direct control and insight into the effectiveness of those third parties' risk management practices.

**EXECUTIVE SUMMARY**

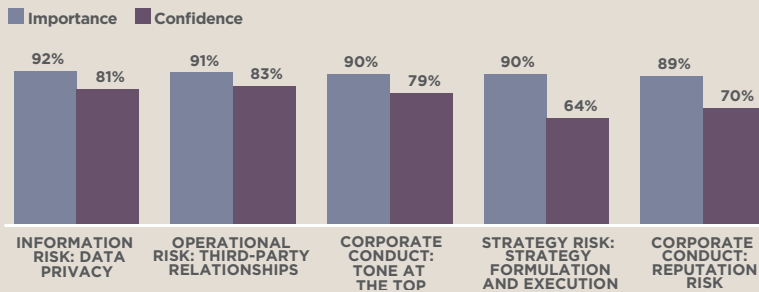
**There is a small range in the importance ratings given to the top risk areas.**

• The risk area with the greatest importance and confidence gap is strategy formulation and execution, possibly due to both the relative newness of this area to internal audit and the growing stakes for companies to formulate and execute on successful strategies.

• The pervasive nature of many of the risks within this category is a key reason they are being pushed to the top of audit agendas.

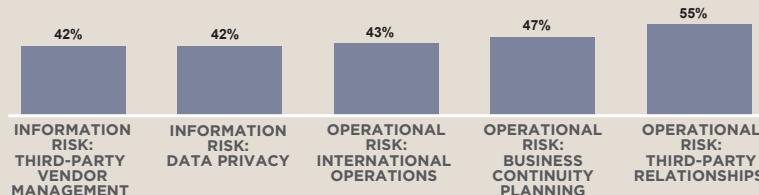
**Top five most important risks compared to confidence in audit department's abilities to understand and review**

Percentage of respondents reporting important/very important or confident; importance is for the next 6-13 months



**Top five risk control deficiencies**

Percentage of respondents finding control deficiencies in the past year



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