DON'T RUN THE RISK

SOUND TREASURY CONTROLS CAN PREVENT YOUR COMPANY LOSING MONEY – AND ITS REPUTATION, ARGUES WILL SPINNEY

This is the concluding article in a series of three that focuses on controls in treasury. Why have we been looking at these in so much detail? Because if something goes wrong inside treasury, it can go spectacularly wrong, causing not just losses, which perhaps can be afforded, but also loss of reputation, both internally and externally, which can often be more damaging.

Treasury depends on a few individuals and so there is always risk and sensitivity around all the cash movements going on. The diagram below sums up the How, What and Why of these risks and points us to some of the techniques that can be used to respond to them.

We are probably all aware of situations where one individual is very powerful inside an organisation and can, on their own, take the company down an undesirable path. A diversity of opinion, reflected in talking things through with colleagues and discussion in committee, is a way to manage this risk and protect individuals from criticism.

The controls we have discussed to date include the use of standard settlement instructions, frequent reconciliations and splitting roles inside treasury as well as segregation of duties.

One further key technique is to make transactions as automated as possible, which is called straight-through processing (STP). This is because human intervention can give rise to some of the greatest risks, even non-deliberate risks.

How can things go wrong? → **What are the key risks?** → **Why does it happen?**

How can things go wrong?
- Speculation
- Incompetence
- Ignorance
- Fraud

What are the key risks?
- Unknown or incorrect base data
- Unclear strategy response
- Dealing errors
- Fraud

Why does it happen?
- Weak strategic direction
- Poor controls
- Poor data collection
- Excessive complexity
- Megalomania
- Dishonesty

Using our familiar deal flow, a typical transaction would be automated as follows:

Deal execution (this is human-led)

Deal recording (if the deal has been traded over a portal, recording can be automated)

Deal confirmation (this can be automated, following human approval)

Accounting and reporting (this can be automated)

Settlement (this can be automated, following human approval)

Reconciliation (this can be automated, allowing exception reporting)

STP should be a goal in treasury management and modern treasury management systems (TMS) will be able to go a long way towards achieving this, particularly when combined with the latest bank communication software, such as SWIFT, as well as with other proprietary systems.

A further key control is to limit who can do what inside a treasury. Roles may be separated: for example, back-office staff must not be able to deal and front-office staff must not be able to make or approve payments or confirmations.

Delegated authority (sometimes called approval matrices) restricts activity within a role. Modern systems help here, since individuals can be authorised to just carry out specific activities on the systems. There are several caveats to this approach to delegation of authority, however:

- The setting-up of authorities inside systems and in documentation is complex, it may require board resolutions and it does require an 'administrator' to manage authorities.
- Systems can be left open on desktops and even a brief absence from a system can allow the wrong things to happen.
- In small treasuries it is difficult to have enough people to achieve full segregation of duties.
- There is always a (very commendable) wish by staff to get things done and this can involve cutting corners.

Something will go wrong inside a treasury that you are part of at some stage in your career. Make sure the risk is communicated widely, managed and that the mistake is quickly remedied.

TREASURY CONTROLS

- **Control**: Include treasury controls in board policy. **Explanation**: Get management backing for treasury policies, ensuring that they understand the risks and the responses to these.
- **Control**: Front/back-office separation. **Explanation**: Segregation of duties is a basic way to ensure a check on activities.
- **Control**: Delegation of authority. **Explanation**: Ensure decision-making and power is in the right hands.
- **Control**: Segregation of duties. **Explanation**: Beyond a front/back-office separation, this further enforces checks on transactions.
- **Control**: Automation (STP). **Explanation**: The more automation, the less chance for error.
- **Control**: Catch it quickly. **Explanation**: The sooner you catch an error, the easier it is to get money back and the less chance there is that markets have moved. This emphasises the importance of timely reconciliation.
- **Control**: Involve senior management. **Explanation**: Treasury committees allow for diversity of opinion, sharing of views and minimising personal risk.
- **Control**: Make things simple for counterparties. **Explanation**: The simpler you make it, the fewer errors there will be.
- **Control**: Zero tolerance. **Explanation**: For any sort of breach of procedures and controls.

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