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The changing treasury

Optimal use of technology

Many corporations in Singapore are increasingly realising the need for enhanced treasury controls to meet requirements of the Sarbanes-Oxley Act (SOX) or its equivalent. One such improvement would be in the area of treasury automation.

Treasury technology continues to be a challenge for many

treasurers and is arguably an area with the most opportunities to improve the effectiveness and efficiency of treasury process and create closer connections to other business units. The optimal use of treasury technology to create a fully integrated environment is still very much a “holy grail” for treasurers. ■

Enhancing treasury controls for Sarbanes-Oxley compliance

Over the past five years, corporate treasurers have seen many reforms, including the introduction of new US and international hedge accounting requirements (such as International Financial Reporting Standards or IFRS), the Patriot Act and SOX. These reforms have provided treasurers with opportunities to define their strategic position within the corporate framework.

With the gradual move towards a SOX environment, the issue faced by many corporations is whether increased treasury automation ensures a more reliable internal control environment. Beyond the efficiency gains, the key driver of such initiatives is the need to streamline the SOX compliance process.

Process automation enables treasury departments to improve and standardise their control procedures. The automation of treasury process eliminates the need for manual controls which are prone to human error. It also provides chief financial officers, treasurers and management with real-time access to key online metrics and reports; measurement

of ongoing treasury performance and timely detection of potential risks for proper remediation.

Two years after SOX implementation (where larger public enterprises have to meet the new financial reporting and certification mandates for end-of-year financial statements filed after 15 November 2004), treasury professionals are more aware of their compliance role and looking into ways to enhance controls in their treasury systems to eliminate inefficiencies and reduce risks.

Impact of SOX on corporate treasury

At the business process level, the treasury department is responsible for documenting, assessing and improving key internal controls relating to all processes affecting the accuracy and dynamics of financial reporting.

The responsibilities of the IT department include documenting, assessing and enhancing IT controls of the information systems supporting the treasury process. These include spreadsheets, bank websites and treasury management systems. These controls can be broadly categorised into IT general controls and application controls.

IT general controls ensure

compliance with corporate IT governance standards as they relate to treasury applications and their underlying infrastructure, such as operating systems, relational database management systems, communications and interfacing utilities.

Application controls are more specific and cover both the adequacy of system access to segregate roles and responsibilities, and incorporation of automated controls that ascertain computation and reporting accuracy.

Advantages of automation

Automation enables treasury departments to improve the effectiveness of their internal controls. Compliance efforts are streamlined by eliminating highly manual and labour-intensive control procedures that are the sources of errors, omissions or fraud risks.

From a SOX perspective, the benefits of treasury process automation are two-fold. Firstly, the system provides greater automated controls as it replaces labour-intensive manual processes and controls. Secondly, it improves information security and governance.



Automated controls at a glance

Within the cash management process, bank reconciliations and posting of accounting entries will be automated, thereby reducing risks of errors or fraud. The system will provide complete automation of the approval workflow for payments and fund transfers. Segregation of duties will be automated such that no initiator of a transaction may perform the subsequent approval function.

From an investment management viewpoint, automation will enable treasury to manage its corporate investment policy across various business units and subsidiaries, while ensuring that transactions performed by these entities comply with the corporate investment policy. The system will provide automated approval workflow for investment transactions as well as automated market-to-market functions for derivatives and other financial instruments. Apart from automated reconciliations, the system will be able to calculate interest and dividend income and related accruals as well as investment-related amortisations.

For debt management, there

will be similar automated controls as mentioned in the above two processes, including loan register, automated bank reconciliations, zapproval of workflow for financial commitments, tracking and computation of amortisation, interest expense and accruals and debt-related risk exposures.

From an overall perspective, tracking and computations of risk exposures would be automated from a risk management perspective. In addition, more sophisticated workflows may involve several levels of approval based on the types of transactions and threshold amounts. Lastly, not only will automated workflows enable organisations to strengthen and harmonise their control design across the enterprise, they will also improve the control effectiveness by providing greater assurance that corporate policies are adhered to and controls are operating as designed.

Information security and governance

Corporations are able to achieve compliance with new SOX information security and corporate governance standards through automation of the treasury process. Treasury systems allow data and information integration

among various applications which leads to straight-through processing, thereby limiting the risk of errors or fraud.

In addition, increased automation eliminates the use of spreadsheets, which presents many risks, not just in the context of SOX. Computation errors due to input errors, incorrect or missing formulas and improperly linked worksheets are frequent in a spreadsheet environment. Spreadsheet data can also be compromised due to uncontrolled or unauthorised access.

Treasury compliance and beyond

Corporations faced with SOX compliance requirements are now focusing on streamlining their overall compliance process and gaining better visibility of their treasury controls and operations. In turn, treasury systems may be viewed as a tool that management may rely on to determine the adequacy of automated controls over the treasury process.

As part of the ongoing SOX process, treasuries are exploring

ways of leveraging technology to improve controls through increasing automation and implementing best practices across the organisation. Indeed, automation improves control design effectiveness by creating key controls that would be difficult or impractical to implement in a manual environment (e.g. sophisticated payment workflows, interfaced applications and data encryption). In addition, operating effectiveness will be greatly enhanced through ensuring that these controls are in place and operating as designed. ■



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