Treasury Trends

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TREAS*INTEGRITY*URY

Businesses around the globe operate on the basis of integrity – "*doing the right thing … even when no-one is watching*". In the digital world it is ever more important to be working to the truth 'now', and those with ultimate responsibility for business operations are being challenged to understand new areas of risk, reporting and compliance.

Whilst treasury still revolves around an organisation's use of cash in the most basic sense, these evolving themes need appropriate focus and attention by Boards and Councils. All fit within the demands of building and maintaining high levels of integrity (relating to ethics, people, data, systems, etc).

Technology, data protection, people and security

Technology - It may not come as a surprise to many, but even in today's technologically advanced business landscape, a large percentage of organisations still have Excel as their 'go to' for financial modelling, cashflow forecasting and general data management. The 'horses for courses' mantra needs to apply to your own organisation, but opting out of relevant and practical technology brings with it two particular areas of risk: reliance on spreadsheets and integrity of inputs/outputs; and key person risk.

Data protection - Acknowledging that spreadsheets are convenient and flexible, they pose inherent risks due to their manual nature and lack of data governance. Organisations that rely heavily on spreadsheets are susceptible to errors, version control issues, and inadequate data security. Such risks increase the chances of unwanted outcomes, such as incorrect financial reporting, inaccurate forecasting, compliance breaches and operational inefficiencies.

Good governance will likely include looking at the level of spreadsheet usage across a business (their purpose, and the personnel responsible for maintaining them), the complexity, level of data integration, and the extent of automation utilised – or what might be available. A thorough review of spreadsheet controls would also include areas such as access rights, change management procedures and backup protocols.

Questions for Board/Council/Director:

1. Are you operating at or near best practice when it comes to technology, data protection, people and security?
2. Do you know how much cash you have? Where it is? Who can access it? Who controls it?
3. What's the difference between ESG and sustainability? How will this impact on treasury action and reporting? Will it be done for the 'right' reasons? Will it be 'real'?
4. Do you know whether your treasury operates at best practice? What areas of operation might benefit from review?

It is worth noting of course that simply adding in a treasury system or solution does not solve all issues. Business requirements need to be well defined, the selection process well informed and any subsequent implementation subject to robust project management.

People - Key person risk refers to the potential negative impact on a business when a key individual or group of individuals possessing critical knowledge or skills leave the organisation. This risk will likely apply to any or all areas of a particular skillset or specialisation, but might be more pronounced if 'the spreadsheet' has been in the hands of one person for many years - through design, updating, control, etc.

Training and knowledge sharing programmes can help to lower such risk, thereby reducing dependency on any one person, and maintaining up to date documentation around processes is critical.

Security - The focus on cyber also impacts treasury, with management needing to ensure that robust and complete processes and practices are followed in regards to IT systems, banking platforms, AML, KYC etc. Boards and Councils will need to 'sign off' cyber controls for treasury as part of wider cyber risk management strategies.

Cash visibility

The ability to make informed decisions to support the financial health and wellbeing of an organisation ultimately rests with the Board or Council.

To effectively oversee cashflow and treasury reporting, succinct dashboards should be provided/received which not only summarise the 'now' but signal patterns and trends – and risks. Explanations of variances from plan as well as assumptions are all key in seeing the whole picture.

ESG/Sustainability

ESG and sustainability are both strategic considerations for organisations, executive teams, lenders and investors. While they do have some overlap, there are also important fundamental distinctions around how one approaches, prioritises, and measures ESG performance alongside sustainability programmes and initiatives.

Recognising the impact on long-term sustainability and reputation, many are looking to prioritise integrating sustainability considerations into treasury practices. This includes assessing the environmental and social risks associated with treasury operations, such as climate change, supply chain ethics, and human rights. There will be a requirement to create and/or develop ESG policy, disclosure and reporting, alignment of treasury strategies with sustainability goals, and exploring sustainable finance options.

An organisation needs to ensure any change and or improvement is done for the right reasons – and there are direct financial benefits in many cases to encourage such action.

Complacency - risks associated with status quo

There is little benefit in change for change sake. The dynamism in treasury and banking means that opportunities may be missed if there is a reluctance to challenge the status quo. Change can cause a rise in blood pressure for even the calmest person but there needs to be an open mind approach to all things treasury – on a scale, complexity and risk/reward basis. For example, it may be easier to stay with the same funding structure, investment asset allocation or transactional banker from a management and operational perspective, but if there is a better solution available (and able to be implemented in a structured way without compromising existing resourcing) with material net benefit, why would it not be progressed? A new ERP or accounting system, a significant M&A deal or loss of key people might afford delays to a process – but not justify the passing of a wider benefit if it meets tests of, for example, more effective use of group cash, lower fees, providing better customer/supplier experience, etc. Clearly, a good process would recognise impediments to progress at the outset but we often come across frustrated vendors, banks and directors/councillors when barriers are put up for no or little sound reason.

The same approach applies to technology, reporting and ESG. What is done now may well be the 'best' way to operate – but it might not. There is likely merit in confirming your position. Accepting risks around spreadsheets and/or people, missing out on new technology and efficiencies around cash which drop you below competitors and offside with customers/suppliers, or realising that your cost line could have been enhanced over past months (or years) will only frustrate. Independent benchmarking will assist in the support of the status quo or push for change.

Planning for a 'new' treasury

An annual policy review is common practice by Audit/Finance/Risk Committees but 'better' practice might be to establish a wider treasury review plan – establishing a roadmap of priority areas to look at, on a rolling basis. Talk to your advisor as to what is going to be of benefit to focus on in the coming months.

"*It takes less time to do a thing right, than it does to explain why you did it wrong*". (Henry Wadsworth Longfellow)

TREAS*INTEGRITY***URY**
i.e. ensure you have ... integrity within treasury.

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