

Get up to speed
Building Better Finance Functions

What's the cost of control?

Keeping control of your business when cash is king



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Managing your control environment

You're in the midst of the credit crunch.

Is your control environment able to mitigate the emerging risks?

Highlights

1. **Take a closer look – is your controls platform good enough?** – Do you have the sound controls platform you need to respond effectively to emerging issues and risks?
2. **Focus on what really matters – responding to a changing risk profile** – The current economic climate brings with it new risks such as increased pressures to protect profit, risk of breach in covenants, risk of fraud etc.
3. **Remember 'cash is king'** – Cash management is vital. There has never been a more important time to challenge the controls over cash and related activities in your business.
4. **Reliable and timely information is key** – The need for reliable information to make timely decisions is critical, now more than ever.
5. **The right controls at the right costs** – Establishing a sustainable control environment in which to operate is essential.

In this tough environment, assurance over financial processes and controls is paramount.

Managing in a downturn may be difficult for many of today's executives, who have built their careers through 17 years of economic growth. New, and often urgent, risks and challenges are emerging. In addition, companies are facing increasing pressures to cut costs and create efficiencies at the same time as driving sustainable performance.

As financial markets become tighter and funds more scarce, companies can struggle to keep control of their financial systems leading to high profile failures.

An organisation with controls embedded within its processes and operations is not only compliant with regulations, it can react to new opportunities and challenges more effectively. It can predict and deliver performance more reliably and it can manage its ever-changing risk landscape with greater speed and certainty.

Investors and ratings agencies are placing real value on the controls that they see in a company. In addition, as they reflect on their own responsibilities and the current global climate, boards are increasingly asking searching questions about the effectiveness and efficiency of controls within the organisations they run.

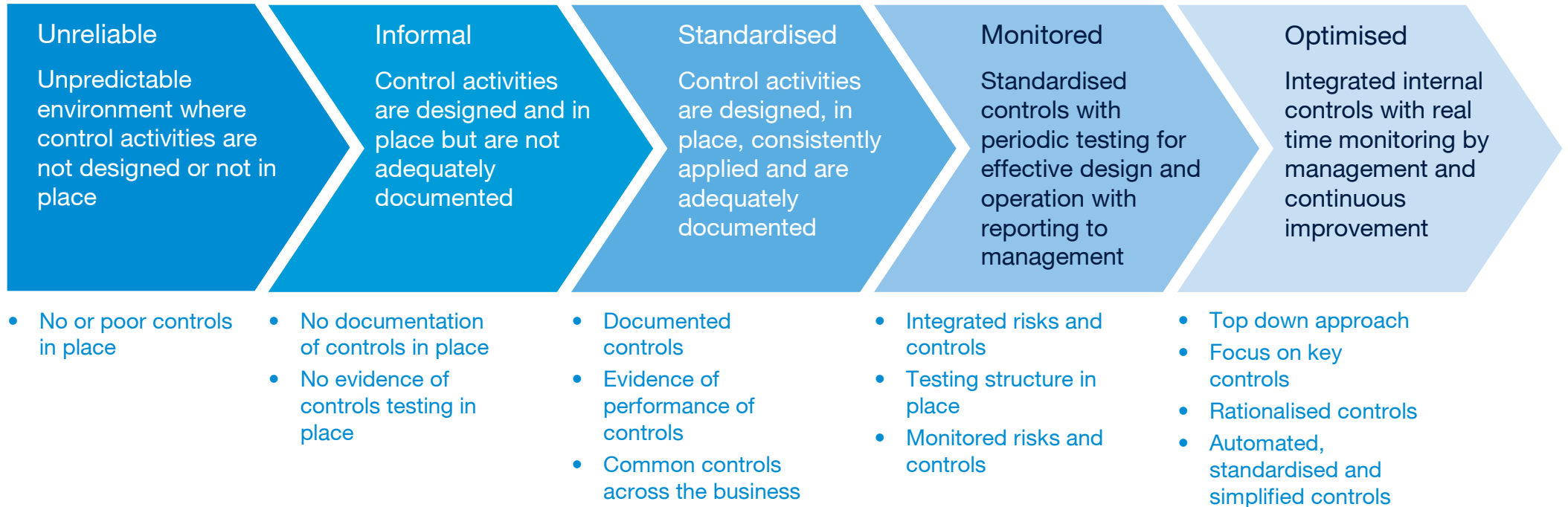
Managing your control environment

A breakdown in controls can cause immense loss, cost a lot of money to rectify and damage your company's reputation if not the very survival of the company itself.

You cannot anticipate every risk that arises but you can position yourself on a solid controls platform from which to manage your business in an effective and efficient way, with a control environment which can help you identify and address emerging risks as they arise.

The winners of this economic climate are those who will act decisively and proactively.

1. Take a closer look - is your controls platform good enough?



When a downturn threatens, businesses need to take decisive steps to understand the situation and what it means for their future survival.

What questions should you ask yourself?

- Which areas need to be monitored carefully?
- How do I rate the control environment in my critical areas?

An initial assessment should adopt a risk-based, top-down approach to controls. This entails understanding key risks that the company faces, assessing the effectiveness of existing company-level controls and the 'tone at the top' which guides how they are approached. Key business processes and IT general controls then need to be mapped and documented and their effectiveness assessed.

So, what should you do?

- Assess and understand your current control environment and its ability to respond to emerging risks
- Decide where you want to be and what needs to be done
- Take control

2. Focus on what really matters – responding to a changing risk profile and complexity

This is an important time for an organisation to understand the risks to the business and the implications for the business – failing to do this could be disastrous. It is crucial that financial risks are properly identified and controlled.

As markets become tighter, companies can struggle to keep control of their financial systems leading to high profile failures. The current downturn poses serious challenges to maintaining good risk management.

Many companies face increasing pressures and risks including:

- financial pressures to maintain profits;
- an increased risk of breaking bank covenants; and
- increased pressures by employees to commit fraud.

Organisations may be subject to a number of business challenges and conditions that make it important that they improve their controls environment. Regardless of the specific trigger or triggers, it is becoming increasingly clear that taking a structured approach to internal controls can yield major benefits.

What questions should you ask yourself?

- What are the key risk areas surrounding our business?
- Are the controls in place adequate to address the key risks identified?
- How should we monitor our performance against these risk factors?

How confident are you that your controls are aligned to a continually changing recessionary risk profile?

3. Remember ‘cash is king’

In the current economic environment companies are likely to find that cash becomes increasingly important to manage.

Businesses that don't manage cash as a priority ultimately may not be able to pay their liabilities and consequently risk being forced into some part of an insolvency process.

Managing cash should be an every day priority, but in a downturn even more emphasis should be placed on:

- reviewing the adequacy of banking and other financing arrangements;
- assessing whether financing arrangements are appropriate;
- monitoring performance against financial and non-financial covenants;
- adopting a more proactive hands-on approach to cash management, e.g. short-term cash flow reporting and forecasting, immediate investigation of variances; and
- enhancing controls over cash, purchasing and order processes.

Ineffective and inefficient cash control processes can quickly develop into significant issues.

Early warning signs of deficiencies in cash management control processes and related activities might include:

- deterioration in the sales ledger ageing profile as customers take unapproved, extended credit terms;
- delayed and selective payments to suppliers;
- inaccurate cash flow forecasting; and
- unexpected breaches of banking covenants.

Boards should be mindful that it's not just businesses that feel the pinch. Pressures on employees to meet increasingly difficult targets in the workplace and the adverse impact economic downturn can have on individuals' personal finances contribute to increased levels of fraud, both in terms of results manipulation and theft from the business.

Failure to give appropriate consideration to governance and controls over cash and related activities during a period of volatility and distress may put the future success of your business at risk. The threat is even greater if processes and controls cannot be developed and adapted to mitigate the emerging risks of a rapidly changing economic environment.

Even during periods of economic stability, we frequently see examples of organisations which have suffered a controls breakdown, resulting in cash loss, because the speed of change has overtaken the evolution of back-office processes and systems.

A cash controls health check is essential at this time. This may include a detailed review of controls and processes in areas such as:

- cash book controls and reconciliation procedures;
- cash management systems and associated processes;
- bank mandates and authorisations;
- payments and receipts processing;
- credit control;
- budgeting and forecasting;
- management information and external reporting; and
- anti-fraud controls, supported by Computer Assisted Audit Techniques (CAATs) and data interrogation.

There has never been a more pertinent time to challenge the controls over cash and related activities in your business.

4. Reliable and timely information is key

As businesses are affected by greater turbulence in the marketplace, management teams have a need for reliable information in order to make timely decisions. But the information management teams rely on to make decisions can be received late and based on historical data. What questions should you ask yourself?

- Is the senior management team updated frequently enough in order to make the right decisions?
- How can I get critical information more quickly, before it becomes out of date?
- What is my degree of confidence in the information I receive?
- Have I reviewed our reporting templates in light of recent changes in my business/the external environment? Does the information still make sense?

- Are we looking at the past? To what extent are our systems geared to providing useful information on the future?
- Thinking of the last big issue I had to deal with – could a more focused reporting of key risk areas have helped me identify or mitigate it earlier?

We have worked with a number of clients who wanted to improve the robustness of their financial reporting risk management and control for internal audit purposes. Our approach focuses on ‘right-sizing’ control frameworks to mitigate risks and understanding both the technical aspects of financial reporting and the operational side of how numbers are processed, including knowing where risks of misstatement manifest in these processes.

Do you have a robust and risk focused system and process framework across the organisation?

5. Act decisively – building sustainable controls

Establishing effective internal controls is high on the boardroom's agenda. There is a view among many stakeholders that well controlled businesses can make more money. At such time of change and uncertainty, organisations should be re-focusing on internal controls and ensuring they have the right controls at the right cost.

Creating an optimised controls environment is a process of continuous improvement.

Controls need to be monitored and assessed, accountabilities need to be clearly understood and automation introduced wherever possible. Other initiatives addressing risk and control should be integrated with the programme of internal control so that a converged view of controls activity and performance is available across the organisation, increasing the ability to communicate performance reliably to internal and external stakeholders.

Moving towards a platform of optimised controls provides a solid foundation for improving processes and identifying further opportunities for cost reduction.

More cost effective control procedures in existing and restructured processes may be possible through automation and effective review of the existing controls.

By optimising controls, change can be addressed more effectively. Conversely, implementing major change or revising corporate plans without a robust risk assessment and a streamlined and effective controls environment will be more challenging, entailing greater risk and higher cost.

An organisation with controls embedded within its processes and operations is not only compliant with regulations; it can react to new opportunities and challenges more effectively. It can predict and deliver performance more reliably and it can manage its ever-changing risk landscape with greater speed and certainty.

How PwC can help

Controls Optimisation is our response to the needs of businesses to have the right controls at the right cost. The right controls are those that mitigate risk to the business in an efficient and cost effective way, and are supported by an embedded culture of controls awareness and sustainable monitoring.

Optimised controls can support better finance functions, help to manage complexity, achieve effective governance, regulation and help build a more agile and responsive business organisation.

Controls Optimisation is built around a proven risk based approach to internal control and covers:

- having the right controls at the right cost;
- improved quality of assurance;
- reduced complexity and volatility; and
- increased efficiency and reduced cost.

PricewaterhouseCoopers (PwC) has helped many clients build sustainable control environments - locally and globally. Our teams draw upon skills in controls, processes, finance, regulation, risk, tax, people, operations and technology to deliver coherent and sustainable solutions.

At PwC we have a global dedicated and experienced team supported by global tools developed to support this methodology including:

- Controls Optimisation Diagnostic, a workshop based tool designed to assist clients in assessing their current controls environment and reaching a common understanding of where the priorities lie;
- PwC World Class Controls analysis tool which provides a library of operational, financial and compliance best practice controls; and
- Benchmarking tools to assess how companies compare with their peers and to track improvement over time.

We take the time to listen and have the courage to debate different points of view - based on independent and challenging insights, supported by experience and industry benchmarks.

A few success stories...

We helped one of our clients, an international pharmaceutical research company, save 85% of their banking and cash management costs by working with them to review their banking structure and develop their cash vision, policy and treasury organisation.

We helped one of our clients, a global market leader in the healthcare and consumer products industries, address their deteriorating receivables performance and collection period. We successfully achieved an immediate cash improvement in cash generation by redesigning their receivables policy, processes and controls.

We helped one of our clients, one of the world's leading brewers, improve effectiveness (quality & use) and efficiency (production & distribution) of Management Information used in the reporting and planning cycle. We supported our client to align and standardise Management Information into a clear information governance cycle and to refine and integrate new reporting, planning and consolidation processes and controls.

Contacts

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