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BANK ACCOUNT RISK POLL  
REVEALS POOR CONTROL &  
KNOWLEDGE

**By Martin Boyd, COO, SunGard AvantGard Treasury**  
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### Introduction

... executives (CEO and CFO) must certify that they are responsible for establishing and maintaining a system of disclosure controls and procedures, and that they have evaluated the effectiveness of these controls within the preceding 90 days and presented their conclusions from this evaluation in the report." - *Public Company Advisory, September 2002, Sarbanes Oxley Act.*

*A fifth of corporate respondents to a recent gtnews.com poll, sponsored by SunGard, said the information they had about their bank account authority and activity was 'poor or very poor'. This article looks at the results of the poll and reveals some worrying facts in the current climate of regulation and compliance.*

It is now three years since Sarbanes-Oxley was launched to enforce transparent and effective financial controls over companies' activities. It was the Enron and Worldcom accounting scandals, which revealed the lack of such controls and uniformity within the US financial industry, that highlighted the need for regulation. This is not an issue the US faces alone though. The Third EU Anti-Money Laundering Directive and the EU 8th Directive followed in the aftermath of the Italian Parmalat case which pushed compliance issues to the top of the agenda for all European institutions as well.

The global financial industry is required to address its fraud and compliance losses and mitigate future losses according to all these legislative requirements. But, three years later, how effectively is the financial industry now implementing these controls and compliance programs?

In June this year gtnews.com conducted a poll, sponsored by SunGard, to look at the specific area of bank account risk and to find out what level of control organizations have over their non-domestic and subsidiary bank accounts. There were 400 respondents including treasurers and CFOs from corporations and financial institutions. The results were surprising and worrying in the current climate of compliance and regulation.

Even though over three quarters of respondents said they had moderate to high levels of concern over bank account risk, which indicates the importance of this area, one in five treasury professionals said they had 'inadequate information' about their companies' bank accounts. One third of corporations thought their central control of bank accounts was satisfactory 'at best', while one in five corporations thought the information they had about their account authority and activity was 'poor or very poor'.

In the context of Sarbanes-Oxley, CFOs should really be able to confidently and positively answer the following three questions:

1. Do you know where all your bank accounts are (geography, location, bank, etc)?
2. Do you know who has signatory authority to open and close all bank accounts?
3. Do you know the value of transactions moving through all bank accounts and the level/frequency of activity in them?

If, however, the answer to any of these questions is 'no' - and this is likely for a number of organizations considering the poll results - CFOs should be worried about their financial controls over bank account risk.

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But why is this an area of concern? Without proper control over non-domestic and subsidiary bank accounts, organizations face various forms of risk, which could lead to fraud and operational losses.

**Signatory authorities.** This refers to management risk, i.e. who is operating the account, what authority do they have and who is spending the money in those accounts? Without proper controls, an organization is at risk from inappropriate or unauthorized account opening and closing, as well as inappropriate expense control.

**Insolvency.** In the case of non-domestic and subsidiary bank accounts particularly, organizations should be aware of the nature and location of the banks their accounts are held with, in case of insolvency and bank failures.

**Political and economic risk.** Issues such as currency devaluations and FX controls could adversely affect an organization if they are not fully aware of the political and economic situation within a country where their accounts are based.

**Opportunity loss.** If the information an organization has about its account activity is 'poor or very poor' (as the poll revealed), how can it use the cash flow and balance of those bank accounts effectively? For example, the ability to use surplus funds more efficiently or the foresight to move funds from a high-risk environment to a more appropriate environment when necessary. It is also important to consider, not just the average use of bank accounts, but whether they have extraordinarily large flows of activity at any given time or period of the year in order to manage those accounts most effectively.

As the poll results indicate, if one in five treasury professionals say that they have inadequate information about their companies' account activities how can a CFO sign off on the adequacy of corporate controls according to the requirements of Sarbanes-Oxley, for example? Clearly, better financial controls are required and it is central control and knowledge, uniformity and transparency that are the pre-requisites for such a compliance framework.

A centralized management mechanism for assessing bank account risk (within domestic and non-subsiary accounts) would allow an organization to:

- have a complete view of all bank accounts;
- create opportunities to simplify over-complicated bank structures;
- improve management of liquidity risk by concentrating banking activity in areas or institutions where they are more secure; and
- maintain top-level control over the signatories and authorization of any bank account to avoid the risk of fraud (as described previously).

Risk assessment of non-domestic and subsidiary bank accounts is not just a case of simply being compliant with regulation such as Sarbanes-Oxley though. Organizations should consider the wider implications of risk assessment on their business such as avoiding operational losses, preventing fraud and using cash flows more effectively in order to generate revenues.

### About AvantGard

SunGard AvantGard is a financial management software solution suite that allows corporations and financial institutions to manage cash coming in and out of the enterprise at every point along the financial supply chain.

AvantGard solutions give CFOs, treasurers, cash managers and credit and collections managers the tools to derive maximum value from working capital while also providing the capability to reduce risk. The suite helps automate and optimize the end-to-end financial supply chain by incorporating Treasury, accounts receivable and account payable for accelerated cash collection, improved payment cycle time and cash optimization on a global basis.

AvantGard's scalable, customizable solutions connect directly to corporations, banks, customers, partners and suppliers via a secure data connection and present aggregated financial data via an executive dashboard for maximum cash visibility and control.

For more information, visit [www.sungard.com/avantgard](http://www.sungard.com/avantgard)

### **About SunGard**

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