

LEADING THE PACK - ENHANCING INTERNAL CONTROLS THROUGH THE CENTRAL FINANCE TEAM



Setting the right tone at the top has been often said to be a fundamental approach to steering the company in right strategic direction. Taken in a similar context, finance department, as the de facto custodian of the company's resources, needs to ensure that proper rules are defined and complied with by the different operating units. This helps to set the correct tone and finance practices especially for finance departments serving the various offsite or overseas branches in the company.

Many offsite or overseas finance controllers or managers have their main reporting line to the entity General Manager or whoever the head of operations might be. The reporting line to the Group Head of Finance is often largely limited to periodic financial reports and other items in the reporting pack. This is usually the most practical arrangement since the local General Manager is often deemed to be in the best position to assess the performance of the local finance manager.

The central Finance certainly has a role to ensure that the finance departments supporting the subsidiaries effectively support the overall internal controls framework. In other to do that, other than making local finance managers report directly to the head of finance, other techniques can be deployed so as to identify, on a timely basis, any deviations from accepted practices and to establish necessary corrective actions.

Centrally driven policies and procedures

A fundamental control, surprisingly lacking in some companies spanning many overseas subsidiaries is a centrally driven set of finance policies and procedures. The reason quoted is often the differences in practices in the different subsidiaries.

Without a centrally driven set of policies, head office finance will find it hard to keep the subsidiaries in check over their accounting practices. The central control is also likely to be weak since they do not govern critical procedures. Usually, policies are driven down on an ad hoc basis when certain crises strike. By that time, usually losses have already been incurred or reversing the crises requires much resources and costs.

Local units can still include their own specific policies and procedures but these should not contradict the Group policy and should not be more relaxed than the Group policy in terms of requirements such as approving limits.

Global finance conferences

With a global finance support function, regular meetings might also be important to reaffirm relationships and to bring everyone in line with corporate directions. This also helps to build up a stronger reporting line within the finance function so that they can serve more effectively as the monitoring function over operations. The cost of such conferences, while obviously high,

will be well rewarded in terms of a more cohesive finance unit and the alignment of the various disparate units.

Technical support hotline

Finance staff can face many problems in the course of their work relating to technical accounting treatment of transactions or pressures from other parties to account for certain transactions in a specific way that does not seem appropriate. A technical support hotline helps to channel queries on finance issues through a proper conduit. This will help to minimise stress on the finance staff as well as make sure he finds the correct answers (and the support to do so) instead of succumbing to pressures at the local office. This can also help to raise the overall quality of the off site finance departments.

Establishing a wider set of reporting requirements

The reporting pack that is submitted back to head office usually only requires financial figures for purposes of compiling the consolidated financial statements. Head office finance can design a reporting template that requires responses in more operations or internal controls related areas. This has been codified in some companies as part of an overall Control Self Assessment, which in essence is the identification of key internal controls and requiring the staff responsible for these controls

to periodically assess the operating effectiveness of such controls. To design a meaningful questionnaire for the local finance units, their key risks should be identified and the key accounting control procedures to address these risks should be provided for the finance staff to assess.

Participating in recruitment of overseas finance staff

Being located geographically apart, head office finance often evaluates new overseas finance candidates for job vacancies through offsite assessment of the resumes submitted. Where possible,

a teleconference with the candidate, or video conference, while the candidate is being interviewed by a local personnel, can be helpful in setting the impression that head office finance is an important reporting line. Successful candidates will also be likely to treat head office finance as a key factor to their continued success in the company.

Conclusion

With a strong central finance team leading the pack and making sure that all finance units are given clear operating guidelines, a more consistent and quality global finance team should

evolve. Setting the foundation right and providing key support to finance staff will also help to create a more open and cooperative structure that binds the finance team together and provides critical moral and technical support should any finance staff need to take a stand on accounting matters. The above activities certainly come at a cost but for most companies, it is likely to be a worthwhile investment.