UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
MANAGE FINANCIAL RISK

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of managing financial risk. When you select an objective, you will access a list of the associated business risks and control pr

A. Treasury and derivatives risk management activities are controlled.
B. Interest rate risk is controlled.
C. Foreign currency risk is controlled.

I. Senior management and the board of directors provide oversight and direction of derivatives activities, including the development and communication of trading or risk management strategy and policy.
J. An effective organizational structure provides a foundation for controlling risk management activities.
K. A process for financial risk monitoring and control is in place
L. Strategic treasury reviews are used to identify the critical financial risks the company faces and to evaluate whether their treasury systemN. Management segregates incompatible duties and the

Effectiveness and efficiency of operations

A. Treasury and derivatives risk management activities are controlled.

Business risks

- With respect to derivatives, without appropriate business process controls, management may be unaware of, and therefore unable to prevent, significant losses. For example, a clear coherent strategy may not exist to define the risks to be hedged, the instruments to be used and why, the limits on the use of such instruments, the level of risk that management is willing to assume, and the counterparties and dealers with whom the company is willing to do business.
- While many different types of derivatives exist, they share common elements of business risks. For more information on risks inherent in the process of managing financial risks, see the Business risk model in the Risk definition overview.

MANAGE FINANCIAL RISK

Control practices

1. Appoint and make responsible a person with risk management responsibilities for: being aware of key announcements or events likely to affect the markets, monitoring each day's activities and occurrences, and monitoring at least twice daily the company's outstanding contracts and net foreign currency positions.
2. Evaluate foreign exchange policies and risk management practices frequently as market conditions change.
3. Define and monitor the limits for hedging and trading activities according to established written risk management policies
4. Allow only professionals with the requisite skills and experience to transact deals and manage risks, and to process, report, control, and audit derivatives activities.
5. Rotate managers regularly in their assignments to separate functions and processes and to avoid excessive specialization so that managers develop broader experience.
6. Produce reports that post all market transactions to provide management with a glimpse of the unrealized losses that risk managers have accumulated in their current positions.
7. Produce reports that summarize the risk profile of the entire company portfolio and include information on contracts that have been opened and the unrealized gains and losses that have occurred on individual positions.
8. Establish risk management performance measures and benchmarks.
9. Inform banks, counterparties, and other third parties as to what the company's procedures and policies are.
10. Ensure proper segregation of duties exists among deal execution, processing and transaction edits (changes), settlements, and accounting.
11. Ensure all derivatives contract documentation is confirmed, timely and properly executed, maintained, and safeguarded.
12. Review terms of the contract, prior to entering into a derivatives transaction, to ensure they are legally sound. Include a review of the timing of outstanding contract terminations and the calculation of settlement amounts payable to or between parties upon the termination of a contract agreement.
13. Develop an oversight group to meet regularly and evaluate strategies, hedging levels, and exposures.
14. Establish a monetary limit on experimentation with new financial products.
15. Adopt an appropriate accounting and disclosure policy consistent with generally accepted accounting principles and full and fair reporting.

F. Risk management activity and derivatives transactions are properly authorized.

Business risks

- Authority risk--The possibility that risk managers will take risks that management does not authorize or understand, or that they will initiate activities that are inconsistent with the risk management strategy or sound business practice. Authority risk also covers those situations in which risk managers are not empowered(n)25. Td ( )Tj EMC(a)to(pe)-34 ImedIo(i)258 (g)25.

G. All derivatives transactions are accurately processed and reported.

Business risks

I. Senior management and the board of directors provide oversight and direction of derivatives activities, including the development and communication of trading or risk management strategy and policy.

Business risks

- Reputational, hedging, authority, limit, and performance incentives risks increase if senior management does not understand the following: 1. which individuals within the company are responsible for initiating derivative transactions? 2. What are the individuals doing and why? 3. What are the nature and magnitude of the risks the individuals are taking on behalf of the company?
- The company's exposure to currency, interes6TT 12 -0 0 1.3 (m)28 (pa) sc.8 (u)31r1 1 Tf 12T.8 (u)31

UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT

N. Management segregates incompatible duties and the integrity of application systems and key records and documents used to process derivative transactions is protected.

Business risks

- While many different types of derivatives exist, they share common elements of business risks. For more information on risks inherent in the process of managing financial risks, see the Business risk model in the Risk definition overview.

Control practices

1. Establish the right organizational structure to ensure adequate supervision of risk management activities, including: appropriate management oversight and review; appropriate segregation of duties between departments; and the proper reporting of positions and risks.
2. Establish appropriate segregation of duties between departments. For example, rather than have treasury perform all record-keeping responsibilities, assign certain responsibilities such as counterparty confirmations and counterparty reconciliations to another department (such as accounting).
3. Ensure systems support for financial derivatives activities will accommodate the transactions in which the company engages, including efficiently processing and settling the volume of derivatives transacted, providing support for the complexity of transactions booked, and providing accurate and timely input.
4. Ensure systems support for financial derivatives provides basic processing, settlement, and control of derivatives transactions.
5. Develop and document a business recovery plan that outlines steps to take in the event of a disaster, assigns responsibilities to specific individuals, and maintains sufficient records off-site.