



How financially savvy are you?

Jean Pousson provides some hints and tips to Executives and Senior Managers who have difficulties with their understanding of finance.

I have been running finance training programmes for well over 30 years both within the UK and internationally to all levels of management and directors, and it never ceases to amaze me as to the lack of understanding that this discipline presents. This can manifest itself in not fully grasping terms and jargon, which is easily fixable, to a complete lack of understanding of basic concepts. I have seen company directors and pension fund trustees who have admitted that they place total reliance (ie blind faith) in finance experts.

Ignorance is no excuse. And in today's increasingly litigious society this argument does not wash well in a Court of Law. Indeed, I have seen many examples of director disqualifications where the sole defence (ie against the proposed disqualification) was that they trusted the finance director completely.

Obviously there has to be personal responsibility from managers and directors to educate themselves properly as part of their continued professional development. And the GCC Board Directors Institute (www.gccbdi.org) professional director development programmes are a good way to do this.

In the interim, find below a quick and dirty check list that you might find helpful.

- How quickly after month end are your management accounts ready? How quickly after year end are your statutory accounts ready? Lengthy delays could indicate that all is not well. In an age of technology there should be no delay at all!
- Who oversees and appraises the finance director? If finance is not your strong capability how would you know that he/she is doing a good job? Large organisations will have an internal audit committee and most Codes of Corporate Governance issues guidelines as to the workings of such a committee. (eg www.frc.org.uk). Smaller companies do not have this privilege and it is therefore imperative that on the Board or the management team there is at least one other person with good finance qualifications to “kick the tyres”

- Use your auditors well. If something concerns you there is nothing stopping you to tell the external auditors to show more vigilance in certain areas. What do you make of the relationship between the CFO and the external auditors? Too friendly? Too combative?
- Watch out for over complicated organisational and financial structures. These are often facades to distract attention away from what is really going on.
- Can you explain the levels of borrowings in your business? Is that supportable from the cash generation? It is cash that repays profits, nothing else! Never forget the following...You will only run out of cash once!
- The following are idiot proof questions (ie you will never be embarrassed for asking) to put to the CFO/Finance Director should you be uncertain about some proposed business decision.
 - Is this legal? ie allowed for in the legislation?
 - Is this in line with current accounting standards?
 - What will be the impact on profitability?
 - What will be the impact on the balance sheet?
 - What will be the impact on cash flow?
 - And finally. Any tax implications?
- To finish off, have a look at the following statements and answer them with a simple true or false answer.
 - Deferred income is shown in the balance sheet as an asset.
 - Depreciation is a saving to replace future fixed assets.
 - The cash figure in the balance sheet is a very good determinant of overall liquidity.
 - Goodwill in the balance sheet will boost profits.
 - EBITDA is a precise measurement of free cash flow
 - Working Capital requirements are best measured by the cash position in the balance sheet.
 - Total borrowings cannot exceed Shareholders' Funds.
- How did you find these questions? The answers are all false by the way! Good luck out there!

If you would like to learn more, join us on 31 July-1 August in Dubai for a 2-day workshop on Finance run by Jean Pousson. Jean has over 30 years' experience in management consultancy and working with boards and has worked in over 31 countries. In a typical year he will interact with over 600 directors.

For more details [click here](#)