

## A NOTE FROM THE EDITOR

Dear CFO,

Have you ever wondered what you're doing right (or wrong) in your company? Ever needed an expert consultant to tell you what to do (or not to do) to get it right? Well, read on for some expert advice from Granite Consulting's Managing Director Michael Bechara.

By the way, you might also want to train your staff on IFRS in the wake of the New Year... Richard Glover, Chief Executive of ATC International gives us regional insights on International Financial Reporting and an exclusive preview on the DiplIFR program (Diploma in International Financial Reporting) to be launched in Beirut in 2010.

Wishing you a wonderful holiday season!

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## Interview

### Experts Talking.

#### Interview with Michael Bechara, CPA, Managing Director - Granite Consulting Group Inc.

What's the biggest mistake a CFO can make? What is the number one skill a treasurer should possess? What can companies do to prosper in this new environment?

Michael Bechara, CPA, and Managing Director of New York-based Granite Consulting Group Inc. answers this and much more in our special interview.

#### **Mi: Can you tell us more about your company and what you do?**

**MB:** Granite Consulting Group is a Corporate Governance and Financial Management Consultancy. We are a team of former finance executives (CFOs, Heads of Internal Audit and Controllers) and are well known for helping our clients achieve tangible results.

Most of our work centers on improving our client's internal audit, financial management and treasury processes.

#### **Mi: What makes Granite different from other firms?**

**MB:** All of our consultants are former executives. Much of our success in serving our clients stems from the fact that a short time ago we were sitting across the table in our client's position ourselves. As we like to say, we understand the client because we were the client.

We also perform our work fixed fee. This presents a real value proposition to our clients as there is no financial risk when using our services. Our clients receive hard results rather than simply paying for time.

#### **Mi: What industries do you cover?**

**MB:** We have a diverse client base across many industries consisting of companies from the Fortune 250 to smaller entrepreneurial firms.

We do have significant experience with engineering and technology driven companies that design and manufacture complex products. We are accustomed to operating in environments where the accounting is complex and the regulation is strict.

#### **Mi: How, in your opinion, have the recent events changed the way companies think about Corporate Governance & Risk and Financial Management ?**

**MB:** Being based in New York, we had a front row seat to the economic crisis. As the crisis began we witnessed the death of many commonly accepted beliefs.

Governance and control processes that center around documentation have largely failed. Many of our clients have come to us for help in moving towards sustainable and meaningful control structures that consist of three parts: good people, solid processes and well designed systems.

In the financial management arena the idea that continuous top line growth through merger & acquisitions (M&A) would solve everything was shattered. We are currently seeing a shift from M&A activity to a greater focus on business forecasting, cost cutting and cash management.

Finally, there was a "name brand" approach toward selecting bankers, suppliers and professional services firms that just didn't generate the return that most companies expected.

**Mi: What can companies do to prosper in this new environment?**

**MB:** In the USA we have seen a return to value and basic financial common sense for both consumers and companies.

There is a clear eyed evaluation going on in many boardrooms. Board and Senior Executives are very much focused on identifying and controlling their risks, managing their cash and monitoring/forecasting the business.

Prudence and value in are definitely back in fashion. We are in a very uncertain economic environment where a steady and realistic hand needs to guide the wheel.

**Mi: What, in your opinion, does the future hold for the Corporate Governance & Risk in the Middle East region?**

**MB:** I believe the Middle East has a huge advantage in developing their governance structures at this time. Middle Eastern companies have an opportunity to avoid many of the governance processes and systems that have failed in other parts of the world. The biggest mistake other regions have made has been to take a form over substance approach to governance and control.

The Middle East, and any region for that matter, should capitalize on their comparative advantages when looking to implement new practices. In the classic paradigm of people, processes and systems I think the Middle East has a distinct advantage in the people aspect. There is a lot of social pressure in the Middle East to "do the right thing." This is an aspect that can be built in to local approaches to governance and control.

**Mi: What are the emerging challenges and opportunities for internal auditors?**

**MB:** The global challenge is the identification of risk and the interpretation of what that means for their company. Internal Auditors who can view risk multi dimensionally and recognize patterns in the data will best be able to help their companies navigate through some very difficult challenges.

In the Middle East region, the interpersonal part of the job takes on increased significance. The culture is based on respect for one another's dignity and if internal auditors are not careful they can quickly stumble over this very important point.

Professionals from outside the Middle East who do not have an understanding and appreciation for the local culture often make this mistake.

**Mi: What is the most difficult job of a Chief Internal Auditor?**

**MB:** Most Chief Internal Auditors agree that the most difficult aspect of the job is planning. There is almost no other job in a company where the tasks are not predetermined. The Chief Internal Auditor must decide what his activities will be for the year by identifying the risks and then addressing them.

Many internal audit departments plan using simple intuition, unfocused discussions or some randomly determined rotational schedule. Even if spreadsheets are used the risks are evaluated linearly rather than in aggregate.

We develop internal audit plans by using a disciplined process supported by our proprietary risk assessment tool based on neural networks. Our model uses artificial intelligence that mimics the human brain. Specifically it is able to recognize patterns in the data and it can assimilate past experiences in making an evaluation about risk.

**Mi: Given your expertise in the market, how has the treasury profession evolved in the past 10 years and what does the future hold?**

**MB:** Treasury is a role that has great diversity amongst companies. Typically there is some mixture of cash management, investing, and risk management assigned to the function.

In general, Treasury has a tough job. They increasingly cannot do their job without understanding the macroeconomic landscape around them and these days that landscape is rapidly shifting.

**Mi: Can you give us an example?**

**MB:** There was a case in where companies were investing in auction rate securities that were deemed safe and liquid. When the credit crisis hit, the market for these securities froze. Companies who required cash to fund their operations could not liquidate their positions leaving them in a very undesirable, indeed for some an untenable, position.

**Mi: What is the best advice you would give companies in terms of financial analysis in these challenging times?**

**MB:** Business metrics are legion these days. With the advent of financial software packages and the ubiquitous Excel, companies can come up with many ways to track business performance.

What financial planners and CFOs need to focus on are the real drivers of profitability that are applicable to their business. Rather than track 15 peripheral metrics, its far better to track the 5 or so that really count.

**Mi: What in your opinion, is the number one skill or practice a CFO, a treasurer and an internal auditor should possess in order to drive the company's success?**

**MB:** The CFO needs to integrate and assimilate large quantities of data into a coherent picture. He also must be a good judge of the quality of data that he receives.

The Internal Auditor needs to be logical and a good negotiator. He needs to be able to evaluate processes with an unbiased eye and come up with common sense process improvements that will get implemented.

Finally the Treasurer needs to be somewhat of an economist as well. A good macroeconomic view will aid a Treasurer immeasurably in his job. Managing cash and other investments requires a broad economic understanding.

**Mi: What's the biggest mistake a CFO can make?**

**MB:** Probably the biggest mistake is seeing his job in terms of his specialty. If an accountant becomes the CFO he sees the job as taking care of the accounting. If an investment analyst takes the job he sees his most important role as managing the investment community, if it's a former treasurer then he focuses too much on capital structure and so on.

The CFO position is wide ranging and it is a challenge for many people in this position to forge beyond their own area of comfort and actively manage and improve all of the functional areas in their portfolio.

**Mi: Based on your experience, what is the greatest lesson you've learned about business?**

**MB:** A wise man once told me that the smart man learns from the mistakes of others, the average man learns from his own mistakes and the idiot doesn't learn from either. This lesson is not only true in business but also in everyday life.

**Mi: Can you tell us about the most challenging project you've had to date and how you were able to attain a successful end-result?**

**MB:** I think one of the most interesting projects we had was receiving a call on a Friday asking us to be on the other side of the country (California) by Monday.

Our client had a factory there that was losing money and no one knew why. Monday morning we began our analysis of the entire plant from both a financial and operational perspective. Within two days we had identified the issue to be an inventory problem and outlined the proposed solution to our client.

I am continually energized when we perform these type of profitability analysis projects because we are really able to contribute in a very tangible way to the success of our clients.

**Mi: Your favorite book and what it taught you?**

**MB:** Reflections on the Revolution in France.

This book was written in 1790 by Edmund Burke, an English Parliamentarian. Burke was very critical of the French Revolution because he thought the revolution sought to change French society in radical ways, rather than building upon existing institutions. In many ways he was right as the revolution later turned on itself in the famous Reign of Terror.

Burke's advice is still valid today for businesses, foundations and nations.

**About Michael Bechara, CPA**

Michael is Managing Director of Granite Consulting Group Inc. an internal audit and financial management consultancy based in New York. His work includes advising organizations on risk assessment, internal audit and financial planning & analysis. Michael typically works with CFOs and Audit Committees to build sustainable governance, control and financial management processes.

Under Michael's leadership, Granite Consulting Group has developed a neural networks based risk model that uses artificial intelligence to identify risks within an organization for planning purposes. This process is customized to each client, becomes stronger over time and draws upon the existing knowledge and culture of the company.

A former Chief Internal Auditor, he has worked for companies such as Daimler, Pepsi and EDO. Michael speaks English, Arabic and conversational Spanish. He can be reached at [mbechara@consultgranite.com](mailto:mbechara@consultgranite.com) or 1-845-282-3899.

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**IFRS**

## **Interview with Richard Glover, Chief Executive - ATC International**

Introducing the new addition to our portfolio with a special interview with ATC International's Chief Executive Richard Glover who sheds light on IFRS, the benefits of getting trained and the new Diploma in International Financial Reporting (DipIFR).

### **Mi: Can you tell us more about ATC International and your role?**

**RG:** ATC International is an established provider of professional finance training and consultancy and works in partnership with clients and students alike to give them the skills and knowledge needed to succeed and develop in today's business climate.

Established in 1993, thousands of students have qualified as ACCA members with ATC International in our training centres in Central and Eastern Europe and Central Asia, whilst many more finance professionals have benefitted from our specialist expertise in International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA).

ATC International is the only official ACCA publisher for the Diploma in International Financial Reporting (DipIFR) and also produces a full suite of material for the ACCA Professional Exams both of which are used by many colleges and students globally.

I am the Chief Executive of ATC International and along with my team, work closely with our clients and partners to ensure our programmes meet today's business needs.

### **Mi: How important, in your opinion, is it for working professionals to get trained on International Financial Reporting?**

**RG:** Since the endorsement by The International Organization of Securities Commissions (IOSCO) in 2000 of International Accounting Standards for cross border trading, developments in IFRS have played the predominant role of harmonization of financial reporting standards around the world. With more than 100 countries now requiring or permitting the use of IFRS many accounting professionals need to understand their implications - for the preparation of financial statements and analysis of them.

It is also worth mentioning that in 2006 both the International Accounting Standards Board (IASB) and US Financial Accounting Standard Board (FASB) began mutual cooperation to achieve some convergence of accounting standards (IFRS and USGAAP). Many IFRS standards were improved as a result of this project – illustrating the dynamic nature of IFRS and the need for every accounting professional to keep up to date. Additionally it seems likely that US GAAP, the most well known and widely used accounting standards in USA, will be effectively withdrawn sometime after 2012. IFRS will then clearly be seen to take the leading role in global financial reporting. An understanding of IFRS is therefore highly relevant to every working professional wanting to develop their career in this area.

### **Mi: Are there industries that require IFRS knowledge more urgently than others?**

**RG:** When countries adopt IFRS, banks and other financial institutions are often those first affected along with listed companies (regardless of their industry). Banks and other financial institutions are those specialised industries which are most sensitive to the general form and changes in IFRS, especially in the area of financial instruments. The complicated nature of financial instruments and the current accounting principles, as justified by IFRSs, covering accounting for financial instruments (IAS 32, 39 and IFRS 7) has required the IASB to undertake a project aiming to simplify accounting in this area. Another example of a specialised industry requiring a comprehensive set of accounting policies is the insurance industry – for the time being the first standard developed in this area (IFRS 4) does not, in substance, add much to the core principles of IFRS. The same can be said about the gas and oil industry (IFRS 6). In summary – the core principles of IFRS are relevant to all.

### **Mi: What is the best advice you would offer companies in terms of training their staff on IFRS?**