

FOCUS

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Diagnosing Financial Health

Most owners tend to focus on the overt elements of health: a solid customer base, an excellent reputation, providing great products/service and having an effective team that enjoys working together to move the company toward its mission statement. These are important elements, for very good reasons, but there is an element of financial well-being that is often overlooked—its financial health.

Financial health enables businesses to continue to do what it is doing well into the future.

Diagnosing financial distress involves becoming familiar with your company's financial operation and its profitability. Once such a procedure becomes a habit, your sensitivity to and awareness of financial matters will increase. Allowing you to identify and tackle any shortcomings, instead of waiting for it to become debilitating to your business.

Key areas:

Effective use of Debt: This insight is one that is so important to the continued health of a growing company that it cannot be overstated. Long term debt is taken on for the acquisition of fixed assets such as equipment, cars, facilities and acquisitions of companies or their assets. Short term debt is often composed of accounts payable to the trade or employees for expenses, payroll liabilities, accrued but unpaid vacations, customer deposits, and the portions of any third-party loans/facilities due to be repaid within one year.

Asset-based financing is common for companies with accounts receivable and / or inventories. There are numerous lenders engaged, including most banks. Typically, companies may arrange to borrow between 70% and 80% of those non-government receivables that have not aged past 60 days from invoice, up to a maximum amount, or "credit line". Other companies have both the creditworthiness and relative size to be able to borrow from private and banking sources without collateral, with unsecured loans.

Numerous companies have gotten into trouble by using the easy availability of these short-term lines of credit, meant for rising and falling working capital needs, to make payments upon long term obligations such as asset loan payments when due. And worse, some even purchase assets such as equipment with money from short term loans. At times when companies are in trouble to pay off their debts on time, they decrease their selling price, hence decreasing their margins/break even/losses. Matching the term of a loan with the life of the asset is an important business principle.

Receivables are assets for only 60 days and the available line can be reduced with payments by customers or aging beyond 60 days. We expect new receivables to be added, but in a cyclic business there may be a disruption in the general economy or reduction in the company's revenues. To avoid the coffin corner, that short term borrowings such as these should never be used to pay any long-term obligations or to purchase fixed assets.

Inventory Control: Excess inventory is essentially cash sitting on the shelf.

The excess can be a combination of the depth (excess supply of an item) and the breadth (too many variations of the same type of product) of your inventory.

Managing Cash Flow

The importance of strong cash flow is aptly stated in the common expression "cash is king." The premise of this is that having cash puts you in a more stable position with better buying power. Cash flow is distinct from cash position. Having cash on hand is critical, but cash flow indicates an ongoing ability to generate and use cash.

Conclusion

Appraisal done for management purposes is a diagnostic tool that can help increase your awareness of the financial health of your business. A better understanding of your company's value and profitability can help you manage the company to increase the profitability and thereby the value. Also, keeping your company healthy helps you, your team, your customers/suppliers and your shareholders.



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CEO's Message

Internet: A battlefield of boons & breaches.

When WannaCry Ransomware took Users to ransom.

"On the internet, inside information is currency, and there will always be counterfeiters among us."

- J. Michael Straczynski

As the famous opening dialog of Tom Cruise, starrer movie Mission Impossible-II says, 'every search for a hero must begin with something every hero needs, a villain.' If Internet of Things is a boon in the present age, then another side of the coin is cyber security threats like the Wanna-Cry Ransomware.

On May 12th in an unprecedented malware attack, an estimated 57,000 computers in more than 150 countries were infected with Wanna-Cry. A type of Trojan virus called ransomware holds the infected computer hostage and demands that the victim pays a ransom to regain access to the encrypted files on his or her computer.

From what we have given to understand and the experience which clients shared about such incidents in the recent past, there are three points that all of us should keep in mind.

- Never use a pirated version of an operating system and maintain latest versions.
- Regular checks on the anti-virus and firewall software on your systems.
- Always double-check the email ID irrespective of the display name before opening the email or any attachments.

We must understand that the information we exchange through emails or chatting on social media, can be intercepted by hackers and messages can be encrypted. UAE is the second most targeted country in the region when it comes to ransomware attacks after KSA.

For every vital information that we store and share on the internet, there is a disguise of phishing; for all the internet transactions, there is an evil of cyber thefts; and for all the

ments on social media, there is a risk of cyber bullying.

The usage of internet has become an integral part of our personal and professional lives today up to a level where most of us cannot detach ourselves. We must understand that all of us are vulnerable in the online world and need to safeguard our people and organizations from cyber-crimes, the same way as we do in the physical world. The incident of WannaCry Ransomware has reignited the debate on malware attacks and urgent need to tackle the menace of cybercrimes.



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New CCL adaption due by June 2017- Have you coped up?

Companies in the UAE have until June 30, 2017 to comply with Federal Law No. 2 of 2015 on Commercial Companies (New CCL).

Notable Changes and Features:

- recognition of the concept of holding companies and sole-shareholder companies.
- setting-out of Companies Registrar.
- reinforcement of director's / manager's duties, excepting them from personal liability is voidable.
- new rules concerning pre-emption rights, expert valuation of shares, and the general meeting procedures.
- requirements to keep accounting records for a minimum of five years.
- preparation of relevant accounts in accordance with international accounting standards and practices.

Initial Considerations:

Companies established before the issuance of the new law must amend their Memorandum of Association and Articles of Association in compliance with the provisions of this law. Financial penalties ranging from AED 10,000 to 100,000 may be imposed for non-compliance with the provisions of the New CCL.

Challenges of keeping up:

While some of the aspects need clarification and further guidance from respective Government departments regarding practical implementation, the New CCL certainly affects the operation of companies which are incorporated under the previous law.

The stated objective of New CCL is to contribute to the development of the working environment and capacities of the State and its economic position in regulating companies according to various international norms related to governance rules and the

protection of shareholders and supporting foreign investment and promoting the corporate social responsibility of companies.

With the New CCL requirements and dynamic business climate in UAE, companies need to adapt to emerging and evolving risks to protect and enhance the organizational value.



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Recent hack-attacks highlight importance of risk management

The dust-storm from the WannaCry fiasco has not even fizzled out, yet the world has awoken to fresh malware attacks, which have led to British Airways cancelling all flights from Heathrow and Gatwick airports following a massive global IT failure.

The systems catastrophe caused mass flight cancellations over last weekend, ruining the summer holiday plans for thousands of families and causing chaos globally, as the ripple-effect affected schedules and flight connections at other global travel hubs.

While the airline has kept travelers in the dark about its cause, such occurrences just show how vulnerable digital systems have become to sophisticated attacks. It was recently widely reported how the WannaCry attack brought down National Hospital Services (NHS) trusts in the UK and affecting many businesses, banks and utilities service providers.

So, what are the implications for networks and network operators when such attacks have the potential of bringing down technology systems across the globe? One thing is for sure; businesses need to ramp

up their risk management processes.

Cyber awareness should not only cover breaches in software, but also hardware. Hardware, after all, is nothing but software embedded in chips and circuit boards. Consider the biggest vulnerability of them all: our extraordinary dependence on hardware for our laptops, telecom equipment and mobile smartphones. Businesses and telecom service providers must be prepared for potential disruptions to their networks and hence implement iron-clad solutions to mitigate further of compromise of IT networks.

Granted, those of us who work in IT risk advisory know that 'being safe' is not a goal that can be reached with 100 per cent certainty, and we understand it as the management of a risk to be handled on a day-to-day basis. It's the daily balancing act between maintaining business operations and regularly halting networks to run crucial system updates and upgrades.

This is particularly crucial for organizations with complex systems running many different types of machines, such as airlines and airports, manufacturing lines that employ a wide range of tools or

medical facilities with highly specialized equipment.

As the global race towards a digital future gathers momentum, tackling technology failures in areas such as connectivity and adaptability will need special interventions and further improvement. Cyber-crime has become rampant, and as such, every business and organisation connected to the internet need to reassess their IT risk management processes, by putting systems in place, to plan, monitor, track, and manage security risks.



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Delay in preparing for VAT can put UAE businesses at risk

Quite common to hear from businesses that they will start preparing VAT when the detailed laws and guidelines are announced. Some even hoping that the introduction may be delayed. However, we need to realize that introduction of VAT is a 180-degree change for the whole business culture. The systems, human resources, and business processes must be adjusted to fit the new tax landscape of the country. Such a comprehensive change would need to be well planned and executed over a period.

The UAE's Ministry of Finance (MoF) has organized 20+ VAT awareness

seminars all over the Emirate between March and May to support businesses in preparing for VAT. In addition to that, major tax consultancy firms are also joining the government initiative by organizing VAT training and workshops to the UAE business community.

Thus, waiting until the last-minutes to prepare for the VAT may not be wise. The published GCC-VAT-Framework Agreement and the information supplied during the seminars by the MoF are a good insight tool for businesses. The movement of goods and services within the GCC countries and from/to non-GCC countries are treated in the similar way as in the European Union. With the right guidance from

tax experts, businesses of all sectors should start preparing themselves for VAT.



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Don't become angry:

Abu Hurayrah (may Allah please with him) reported that a man came to the Prophet (peace be upon him) and said:

"Advise me." He said: "Do not become angry." The man repeated his request several times, and each time the response was, "Do not become angry."

(Sahih Bukhari 10:465)

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Your global partner

Crowe Horwath in UAE is a leading member firm of Crowe Horwath International which is ranked as the top 9 global accounting network with more than 764 offices with 35,000 partners and staff. In 2017, Crowe Horwath is ranked as the 6th largest in United Arab Emirates and globally as the 8th largest accountancy network.

The firm continually demonstrates a commitment to quality and provides an exceptional experience to those clients it serves. As a multidisciplinary practice, we offer unparalleled access to international expertise and talent. Our commitment, to the highest technical standards and integrity, ensures that our clients receive the most accurate and relevant advice.

Providing quality and efficient professional services leverage by our extensive experience of local businesses and a high level of partner involvement. Our aim to provide due diligence with care has enabled us to serve a diverse range of clients ranging from small family-owned businesses to large multinational conglomerates.

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*Source: The ranking is based as per International Accounting Bulletin's, April 2017 Issue 572, publication.