Top 10 warning signals a CFO should not ignore: Experts

A webinar, titled "Warning Signals", organised by accounting advisory firm ASA & Associates discussed the 10 warning signals for CFOs, which could help them prevent financial mishaps in their organisations. Here are the 10.

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L-R: Amarjit Chopra, former president of the Indian Institute of Chartered Accountants of India; and Parveen Kumar, national head assurance at ASA & Associates

financial officers should be aware of early warning signs and anticipate outcomes of these indications, a webinar organised by ASA & Associates highlights.

"CFOs should try to get to know what is going inside the organisation, and should not ignore any of these warning signals whether it is frequent change in vendors or increasing delays in compliances and payments," said Parveen Kumar, national head assurance at ASA & Associates.

If any mishap takes place in the company, such as a fraud, CFOs are the first ones to be questioned. Hence, it is of prime importance that CFOs take note of these warning signs. "CFOs are not astrologers but they must be able to predict consequences of each and every financial event," said Amarjit Chopra, former president of the Indian Institute of Chartered Accountants of India.

Kumar, along with Chopra, discussed the top 10 warning signals for CFOs in operations and finance:

1. Promoters Ring Fencing

If promoters of a company are trying to ring-fence or protect their personal assets, this could mean that the company's assets are well below the comfort level. This should be the first and most important warning signal for the CFO, according to Kumar. " In some cases, we have seen promoters withdrawing their money and moving out of the country, but CFOs remain. This is the first warning signal for a CFO" said Kumar.

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2. Frequent Changes in Bill of Material, Vendors

When there are frequent changes in the bills of material (BOM), this could mean that something is fishy in the organisation. Frequent change in vendors could indicate a lack of proper functioning in operations.

3. Over-dependence on technology

Nowadays, organisations use modern technologies like integrated software technology. However, when a company becomes overly dependent on technology, it can become risky for CFOs, as confidential information is more prone to cyberattacks.

4) Complaints

When a CFO receives too many complaints from those outside their organisation, or even from those inside, it indicates that there could be some hidden issues that need to be dealt with.

5) Delays

Delay in compliance requirements, payments, and an increase in the company's working capital are warning signals for CFOs.

6) Financial Ratios

Financial Ratios include 11 ratios, and each ratio is dependent on one or the other in some way. When management starts feeling comfortable with financial ratios this can be a warning signal for a

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CFO. "If CFOs start to feel comfortable that my current ratio in last year was 1:1 and now it's 1:5 or note improvement with any other ratio, that can be a serious warning because one has to analyse the cause of improvement in any ratio," said Chopra.

7) Increasing Working Capital

An increase in working capital can be the result of increasing debts or credit periods getting shorter in the market. This has a direct link with the goodwill of the company or previous payment patterns, which requires a detailed analysis of factors responsible for increasing working capital.

8) Company defaulting on statutory dues

Normally companies tend to pay their statutory dues like advance tax, provident fund deposits and GST on time but when financial statements show a delay in payments of such dues, it could indicate hidden debt or reveal issues within an organisation.

9) Increasing Inventory

Increasing inventory is a warning signal for a CFO, as it can be because the stock is outdated or does not hold market value anymore.

10) Disclosures

Based on the 11 ratios, CFOs must be able to disclose whether a company is able to meet its 12-month requirement. " In case something goes wrong or there are problems with financial accounts, or any fraud is reported, the person who is questioned is a CFO," Chopra said.

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