



ARTICLE - APRIL 2012

INDEPENDENTS SHOULD AIM HIGHER TO MANAGE PERCEIVED RISK

As we enter the new financial year, unsurprisingly, access to capital continues to be the overriding concern for oil and gas CFOs.

With CFOs considering IPO against a backdrop of a persistently volatile macro-environment, thoughts may well have turned to ways of gaining an edge over an increasing field of competitors. This is especially important as opportunities to acquire assets at reasonable prices increase.

Oil and gas companies can't afford to be passive. To win the investment needed to succeed over competitors, a proactive, even aggressive approach is necessary. The majority of independents are familiar with the regulations of AIM and IFRS. But is meeting these relatively basic requirements enough, and what happens when a sudden need to meet stricter regulations arises?

Meeting New Demands

When Afren Plc made the decision to move to the Main Market in 2009 following a period of remarkable success and rapid growth, then Group Financial Controller, Jeremy Whitlock, faced the challenges of preparing the company for sign off by their auditors, Deloitte. Jeremy recalls:

“Our back-room operations began to feel stretched, we felt that we were always playing catch up. A major concern in moving to the Main Market was that Deloitte wouldn't sign off on our documentation: we had a lot of work to do.”

This is a common scenario. Oil and gas companies must strike a balance between keeping costs down to manage debts prior to acquiring assets and raising funds, and

investing in processes to capture, analyse and report data. Another key consideration is the ability to demonstrate sophisticated controls to internal and external stakeholders.

Hindsight is a fine thing, as Jeremy of Afren Plc recognises:

“If we'd seen the company we were going to become, we would have done things earlier. What you need to do is have the systems in place for the size of company you're planning to be at the end of the year.”

Preparing to comply with Main Market regulations is certainly a challenge, but it is one worth addressing sooner rather than later.

Internal Controls

In order to make an informed analysis and decision, investors, especially in the increasingly risk-averse banking sector, need to have confidence in responsible corporate governance to meet their strong internal control and risk management requirements. This demands the introduction of sophisticated controls, covering issues like social responsibility and whistle blowing, demonstrated by a set of policies and a clear articulation of reliable procedures.

Main Market listed companies are required to comply with regulations for effective internal controls that do not apply to AIM listed companies. Rather than being put off by these infamously stringent regulatory controls, CFOs should view them as a useful benchmark to work towards in order to secure investment.

Complying with the Combined Code of the Main Market needn't be beyond the reach of smaller, AIM listed

companies. If issues are addressed early and controls introduced gradually, CFOs are likely to find the process far less painful than rushing to implement everything when the need becomes more urgent.

Financial Systems

IFRS standards are constantly evolving. By continuously redesigning financial procedures in order to meet the minimum requirements, smaller companies risk being in a constant state of catch up; a distracting and draining state of existence. Constantly adapting to new reporting standards requires the introduction of new procedures to avoid the necessity for investment in expert, and therefore costly, human capital.

The combination of robust financial processes that allow for accurate and efficient reporting, and internal controls that provide potential investors with the level of assurance that's closer to what they might expect from a Main Market listed company will grow confidence; helping a risk-averse audience of investors to easily identify stability, which will give oil and gas companies a competitive edge.

First Steps Towards Compliance

Mapping out existing systems and controls, including high level finance processes, internal roles and responsibilities and authorisation levels, whilst it might sound labour intensive, can be hugely beneficial.

Visual illustrations in the form of process charts and flow diagrams can be invaluable in revealing areas where efficiencies could be improved, such as areas of replication or potential for automation. Conducting this sort of exercise should result in a solid plan of action to work towards meeting risk management standards and prepare for future growth.

Engaging Stakeholders

According to a survey in February's edition of this magazine, oil and gas companies believe that the ability to retain human capital closely follows the importance of accessing capital and investment.

Within the fast-growing teams of oil and gas companies, producing flow charts and process diagrams will give finance employees a wider view of how the business operates, and how each financial process is aligned. This opportunity for employee engagement can be optimised through introducing interactive workshops, where individuals are encouraged to give their opinions on existing processes and present ideas for new ones.

For companies considering converting to IFRS, or preparing an application for the Main Market, this process can be particularly valuable in transferring knowledge and effectively managing change. The resulting documentation can also be used in training, helping to manage risk around new employees.

Attracting investors is, of course, only the first hurdle. Keeping a current relationship strong is less resource intensive than starting a new one. Robust, well-planned financial reporting procedures will make regular and in-depth investor communications more feasible. In the current market, simply committing to minimum requirements isn't enough. Again, Main Market standards are an indicator of the level of information that should be considered in investor communications plans.

Amidst a bearish market, a bullish attitude will go a long way. Getting systems and controls in place won't just save resources in the long term, it will attract investors, whilst building employee engagement and understanding: you'll stand out as the most attractive proposition, and you'll even be prepared when the time comes to float on the Main Market!



Silver
Channel Partner

+44 (0) 20 7642 0228
info@progressive-tsl.com
www.progressive-tsl.com

Progressive Technology Solutions Limited
7 Stratford Place, London, W1C 1AY, UK
Registered in England & Wales No. 5110124