

Case study information and project issues

*For terms marked with *, see Appendix “The ABC of Amazing Chemicals” below.*

Introduction

Throughout this course you will be working with a case study that will allow you to practice working in teams and solve “real life” examples of challenges you will encounter on the job.

This is not a technical course, so we are not testing your technical knowledge! In fact, the engagement topic is outside of your day-to-day role to allow you to focus on meeting skills rather than technical content.

This document gives you information about the client and the work you are doing on this engagement:

- Memo from your Manager
- Attachments
 - Project scopes
 - Company background
 - Leadership information
 - Other useful information

Memo from your Manager:

To: Senior

We are currently working on two projects with Amazing Chemicals (AC).

I was scheduled to meet the Client Program Sponsor (appointed by the CEO of AC) to provide an update on key issues we are proposing to include in a report to the CEO. I now need to work on a proposal for a Global 360 Account, so am asking for your help.

Overview of tasks

You are expected to complete four tasks:

A – Review the findings generated by each of the two EY project teams.

From the review, you should plan for a meeting with either AC’s Financial Statement Close Process (FSCP)* Project Sponsor or the VP Vendors and Procurement*.

B – Meet with the FSCP* Project Sponsor and VP of Vendors and Procurement.

You are meeting them with the goal of determining the top issues to include in a discussion with the Client Program Sponsor. To achieve this, you will need to have a broad-based discussion with the client to validate the issues.

C – Determine key issues for discussion with the Client Program Sponsor.

Reflect on your results to determine the top issues to discuss with the Project Sponsors remembering that they have very little time. Consider the Client Program Sponsor's priorities when determining what to include.

D – Meet with AC' Client Program Sponsor to agree the issues.

Agree the top priority issues.

I cannot imagine you will have any problems. See the attachment below for background information and an article I found online that you may find interesting.

Kind regards,

A Manager

PS: I will be meeting the Client Service Partner in two weeks and I am looking for potential information to take to him. Let me know your thoughts.

Attachments:

Company background

AC is a global chemicals manufacturer, producing industrial chemicals for the automotive industry, for the petroleum industry and for use in household products.

AC's corporate strategy is to increase profitable growth by creating ambitious, business-led innovations, building capability in developing markets, and being more efficient and effective throughout its operation by consolidating its processes globally, removing cost and reducing exposure to risk.

Market performance

During the summer of the prior year 20XX, AC revealed that it had overstated net income for the year ended 31 December 20XX by 60m. AC stated at the time this was largely due to incorrectly recording supplier transactions, and in particular to errors in supplier payments and refunds in its automotive division. The incident severely impacted market confidence in the company's supply chain process* and in their wider internal control framework. In light of recent market disorder, the investors and market analysts are concerned about the reliability of profits in the automotive industry and they are not convinced that the management team will be able to bring costs under control quickly enough. The share price has been unstable since the announcement was made.

Objectives and strategies

AC has announced plans to increase operating profit by 5% in 20XX, and also to address ongoing market concerns regarding its internal control environment. Critical factors to achieving these objectives are sustainable cost reductions across the enterprise, while at the same time managing financial and operational risk* more effectively. Key strategies include:

- Understanding the company's exposure to risk across the enterprise
- Transforming the global supply chain* functions with the dual aims of increasing efficiency and reducing risk
- Delivering timely and reliable financial information both internally and externally
- Delivering new IT systems to support the above
- Reducing head count

To implement the above strategies, the company has undertaken several initiatives. Due to the importance of these the CEO has appointed the CFO, Christian/Christine Rooney as the program sponsor to oversee the changes.

Note: Christian/Christine Rooney is the manager of Robert/Roberta Kane, FSCP Project Sponsor* and Sam/Samantha Harbour, VP of Vendors and Procurement. These are the individuals you will interview.

To support them, they have engaged EY to perform the following projects:

- An FSCP* process improvement project
- A review of their Supplier and Contract Management* process across the divisions to support ongoing efforts by management to manage or reduce significant risks

IT systems

The company uses a number of software solutions across the group, including a wide variety of "off-the-shelf" general ledger* and accounting software packages. There is also widespread use of customized spreadsheets and databases, most using Microsoft software.

Platforms used to host AC's applications are typically servers supplied by Compaq, IBM and Dell, with operating systems that include Windows NT, UNIX and OS/400.

Each division utilizes a different set of applications to support the supply chain*, and it is these regional variations that contributed to the financial irregularities reported by the company in 20XX. In an attempt to introduce consistency across the regional IT environments, AC has recently entered into a contract with a global data center* provider to support and maintain the company's IT infrastructure and telecommunications in a number of regional data centers*. There are approximately 23,000 users within the company who have permanent access to AC's systems via a desktop computer or laptop.

Finance systems

Through mergers and other business combinations, the financial systems in use are made up of a number of older systems that have never been fully integrated. This lack of integration has led to a number of the issues faced by the company today. The company is currently reviewing its IT systems.

Locations

Four years ago, AC acquired EZ Household Inc. because they were a dominant provider of household chemicals. Most of the EZ organization was successfully merged into AC within 18 months. However, this was not the case with the finance function. The EZ finance team of 75 people remains 1,300 km away from the rest of the group.

Interesting news: News article: online news: www.xwynew.com

Ali Mehta, president and CEO of AC, the global chemicals manufacturer, today announced that AC would be starting supply chain* transformation program with the objective of improving the efficiency and effectiveness of the company's global supply chain*.

"A world class supply chain* function will result in significant commercial benefits, and will demonstrate to the market that AC has a best-in-class control framework in place," Mehta said.

Mohammed Asif, CIO AC, added that, "In line with AC's strategy to transform the supply chain* function, we will focus on automating processes and implementing an integrated global IT solution to support this."

Project scopes

Last year, EY was engaged by AC to perform a risk assessment. Our main findings were in four areas:

- Strategic Risk (not using approved group supplier)
- Financial and reporting risk related to suppliers (failure to account correctly)
- Operational risk (loss of money)
- Compliance risk (failure to comply with law)

This led to our engagement for two projects that are currently in progress:

- **Financial Statement Close Process (FSCP*) Project**
 - Map current state
 - Identify key areas of improvement
 - Develop future state design
 - Set out benefits of the program

- Scope effort to convert from current to future state
- Highlight key program risks
- Identify other potential improvements in the overall finance function
- **Supplier and Contract Management*Review**
- Review control procedures
- Report on areas where the company's controls may not be adequately reducing risks

Management has also requested that we give particular focus to two specific areas:

- Raw materials* suppliers
- IT services

These projects have identified significant opportunities for improvement of the FSCP* as well as areas of risk in AC's approach to managing suppliers and contracts.

Project issues

Our work so far has revealed:

FSCP*

1. Intercompany transactions are not balanced throughout the month and have to be balanced manually at month- and year-end. Reconciliation is time-consuming.
2. IFRS* adjustments are completed by accounting staff at headquarters rather than at the business unit level.
3. Accounting staff at headquarters are spending a lot of time calculating interest on company loans.
4. Accounting staff at headquarters are currently responsible for variance explanations* for business units.
5. Recurring entries are currently processed manually at the end of the month.
6. There is no owner of the Accounting Policies and Procedures.
7. The payroll department is responsible for gaining pre-approval for overtime of all accounting staff and for tracking vacation and sick time.

Supplier and Contract Management Review*

1. There is no single register of contracts; procurement* managers maintain their own files.
2. There are concerns over the reliability of the recent selection process regarding the outsourcing of IT data center* facilities to a global data center.

3. The contract with the global packaging and distribution company (used by the household products division) was backdated by several months, suggesting it was not renewed on time.
4. One supplier, Nickel and Dime, has reported that they can see information relating to another supplier when they access the inventory*management system.
5. Supplier performance is not being monitored against service level agreements*.
6. There is no environmental and social responsibility* reporting framework for the suppliers to work toward.
7. Concerns have been raised about the company's ability to track software licenses against actual usage.
8. The automotive division does not have a formally defined process for awarding a new contract.

Leadership team information

Name	Title
Christian/Christine Rooney	Chief Financial Officer (Client Program Sponsor)
Robert/Roberta Kane	Financial Controller (FSCP Project Sponsor*)
Sam/Samantha Harbour	VP of Vendors and Procurement*
Mohammed Asif	Chief Information Officer
Ali Mehta	Chief Executive Officer

Biographical information

To assist you in preparing for your meetings, here is the background information about the leadership team.

Christian/Christine Rooney – Client Program Sponsor (appointed by the CEO)

Christian/Christine is a charismatic person who enjoys socializing with key clients over a long lunch. Christian/Christine's much imitated phrase is, "The Customer is King, and that means that the most important asset we have is our reputation and relationship with our customer. We must never tire of serving!"

Christian/Christine has been known to intervene directly in resolving a client issue over quality of product or service level. He/she has a positive attitude about himself/herself and the company and is not afraid to get involved when he/she feels it is necessary.

He/she conducts most of his/her business out of the office and rarely keeps notes.

Robert/Roberta Kane – FSCP Project Sponsor*

Robert/Roberta Kane joined the company as the Financial Controller and is the FSCP* Project Sponsor. He/she has a cheerful personality, a reputation of being easy to work with, and a positive outlook. He/she has no problems bringing enthusiasm to everything he/she does. He/she has recently joined the company.

Robert/Roberta has worked successfully with consultants in the past and recognizes the value of doing a good job.

Sam/Samantha Harbour – VP of Vendors and Procurement*

Sam/Samantha is a hands-on accountant who knows everything there is to know about the Vendors and Procurement within AC. Sam/Samantha worked his/her way through college and fought his/her way up the finance function ladder. He/she is quiet and thoughtful. Sam/Samantha has a reputation for working late and making things happen. His/her staff respects his/her immense knowledge and expertise and his/her open and honest viewpoint. He/she makes objective decisions based on the facts of the situation.

Appendix : The ABC of Amazing Chemicals

D

Data center provider

Company that provides data center services. Data centers are facilities used to house computer systems and associated components, such as telecommunications and storage systems.

E

ERP-Enterprise Resource Planning

ERP systems track business resources such as cash, raw materials, production capacity and the status of business commitments: orders, purchase orders, and payroll. ERP facilitates information flow between all business functions departments (manufacturing, purchasing, sales, accounting,...).

F

Financial statement close process (FSCP)

The process to get from closing the books at year-end (i.e., not booking any more invoices, etc.) to issuing financial statements for the year (i.e., telling the world how much profit the company makes). Also referred to, especially in Global Compliance and Reporting, as "Record to Report" or "R2R".

In the case study, the FSCP program the EY team is working on is to find out where the process can be made more efficient and more automated to reduce the time and the risk of error.

Shareholders and other stakeholders are eager to find out the results as soon as possible so there is pressure to do this as quickly as possible, but without getting the numbers wrong (the "restatement" referred to in the case). Every business has a unique process, but there are some typical simplified steps:

Step 1

Close the books in each Business Unit (BU) and prepare a list of balances (*trial balance*). Stop making any more bookings in system (invoices, payments, etc). Produce a list of all balances, e.g., sales, purchases, assets, liabilities - called a *trial balance*.

Step 2

Make sure numbers match between all companies in the group (*intercompany reconciliations*). If A sells to B, do B's purchases from A match A's sales to B? Investigate and adjust if they don't match.

Step 3

Consolidate BU numbers into one group statement.

Step 4

Do manual adjustments for items we only calculate at month-end or year-end because system cannot do it automatically (accruals, prepayments, pension liability).

Step 5

Review and approve.

G

General Ledger

A complete record of financial transactions over the life of a company. The ledger holds account information that is needed to prepare financial statements, and includes accounts for assets, liabilities, owners' equity, revenues and expenses.

I

Inventory management system

System encompassing all aspects of managing and controlling an entity's inventories of supplies, raw materials, semi-finished products and finished products; includes management of functions such as purchasing, shipping, receiving, tracking, warehousing and re-ordering.

IFRS

International Financial Reporting Standard. A standard issued by the IFRS Foundation and the International Accounting Standards Board.

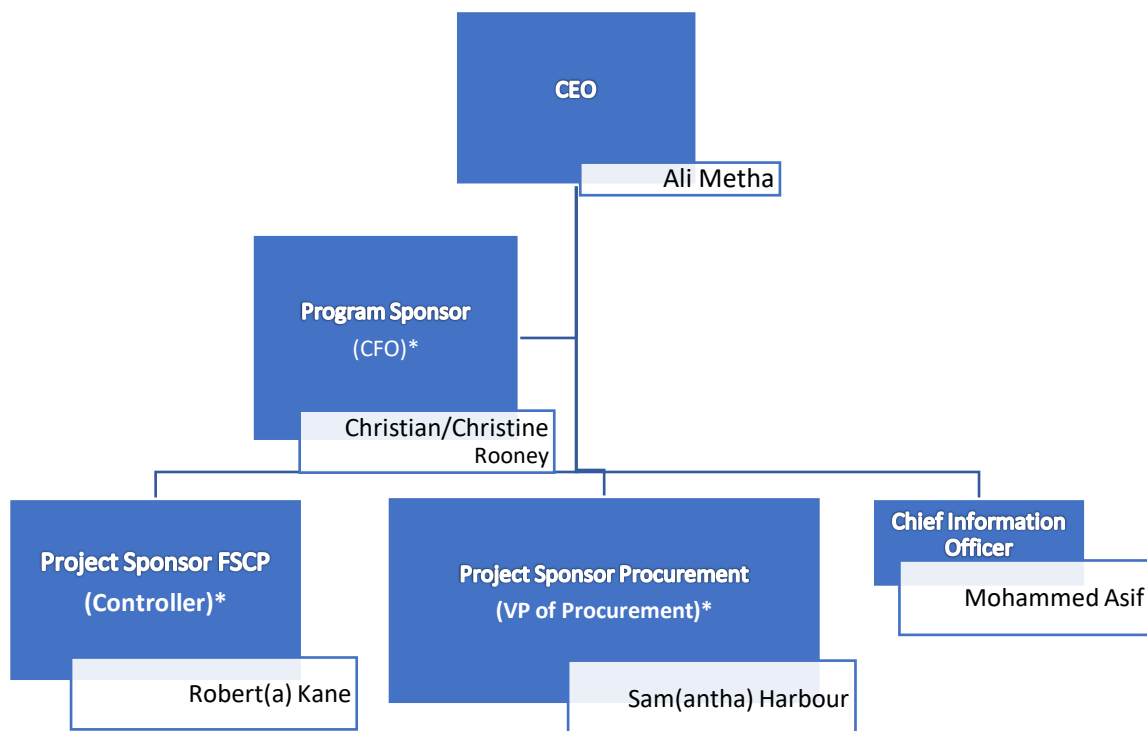
O

Operational risk

Risk arising from the nature of an entity's business, for example, based on the type of product that the entity makes and sells, methods of manufacture, expectations of customers and others with regard to product performance. For example, an automotive manufacturer sells vehicles which, if they do not work properly, may injure or kill customers and/or others: these are operational risks that arise in the automotive industry; almost all manufacturing entities operate factories that contain potentially dangerous machinery and equipment: such machinery and equipment may present operational risk to the entity (which it seeks to address through appropriate training, issue of safety equipment to staff and visitors, etc.). Often distinguished from "Financial risk", although operational risk may, by its nature, give rise to financial risk (which may be mitigated, for example, by purchasing insurance.)

Organization Chart

You will meet these people in the client interviews.



P

Procurement

The process of buying goods, services or works from an outside external source. The procurement department sees to it that the goods, services or works are appropriate and that they are acquired at the best possible cost and meet the terms of quality and quantity, time and location.

In the case study, the Procurement program the EY team is working on is to find out how the process can be optimized to adequately manage risks. In particular, the project focuses on a review of Supplier and Contract Management processes.

In the case-study, the *VP of Vendors and Procurement* is the line manager of the local purchasing managers. This person monitors all processes related to contract and supplier management and reports to the Board.
(see also “Supply Chain”)

R

Reconciliation

The process of ensuring that two sets of records (usually the balances of two accounts) are in agreement. An effective reconciliation process improves the accuracy of the financial

reporting function and allows the Finance Department to publish financial reports with confidence.

S

Service level agreement

Often forms part of a contract for services between an entity and a third-party supplier; may also be a documented agreement between functions within an entity where one function provides services (e.g., accounting, computing, cleaning, machine maintenance ...) to the other. Service level agreements typically document agreed minimum standards of service to be provided (e.g., latest acceptable response time from machinery maintenance or IT departments when problems are reported) and may provide for sanctions (e.g., reduced fees) when minimum standards are not achieved (especially in the case of third-party suppliers).

Social Responsibility

Belief that is typically integrated in the business model of a company that besides making profit, firms should give something back to environment, consumers, employees, communities, stakeholders and all other members of the public sphere who may also be considered stakeholders. At EY there is a passion for “giving back” to society as one of the ways we live our values and make a difference in the communities where we live and work.

Supply chain (Related: *supply chain process* , *supply chain functions*)

The sequence of processes involved in the production and distribution of a commodity or product; can include everything from identification of raw material suppliers, through procurement, manufacturing processes and marketing, to sale and distribution of end product. A broad term, therefore, often requires further specification when intended to focus on a particular part of the overall chain.

Supplier and Contract Management process

Process of identifying and engaging third party suppliers of goods and services, concluding contracts with same, monitoring performance against contracts, including service level agreements (q.v.), etc. May include all phases of the procurement process from analysis of requirements through preparation of short-lists for invitations to tender, proposal evaluation and contracting; evaluation of present suppliers; determination of policy on re-tendering, including setting the interval at which re-tendering should be required; monitoring contracts for expiry, pricing review dates, etc.

V

Variance explanation

Explaining the difference between a budgeted or planned cost and the actual amount incurred/sold.