

SKODA PLZEN TOOLS DIVISION

FINANCIAL SYSTEMS

EXECUTIVE SUMMARY

DECEMBER 1992

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& Lybrand

Coopers & Lybrand

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10 December 1992

Dear Sirs,

Re: Škoda Pízeň Tools Division - Financial Systems

For clarity the report is structured as follows:

	Paragraphs
a) Terms of Reference	1-3
b) Phase 2: Financial Systems and Controls	4-26
c) Documentation	27-28
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I TERMS OF REFERENCE

1 We report in connection with Phase II of the agreement, dated 19 November 1991, between Škoda Plzeň, Coopers & Lybrand and International Finance Corporation (IFC). IFC are parties to the contract in their capacity as executing agent for the Agency for International Development (AID) which has provided a grant for certain professional services to be rendered by Coopers & Lybrand.

2 Phase II of the agreement relates to the following three tasks:

- a) Stage 1:
The design of an accounting system in line with international accounting standards which will allow periodic financial statements and management reports for the Group and tools division.
- b) Stage 2:
In consultation with Škoda Plzeň assist in the installation of this accounting and reporting system in the Tools Division.
- c) Stage 3:
As funds permit, and as agreed with IFC in consultation with Škoda Plzeň the system will be modified and installed in at least four other divisions.

Modifications to the Scope of Work

3 The scope of work set out in the aforementioned contract has been modified following discussions between Mr. Mike Tiller of IFC and Mr. J. Hunter of Coopers & Lybrand in July 1992. It was agreed, due to the high level of support required by the Tools Division, in Stage 2 of the project, that any additional implementation would be carried out solely by Škoda Plzeň utilising the detailed procedural documentation produced in Stage 2.

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II PHASE 2: FINANCIAL SYSTEMS AND CONTROLS

4 We have designed, installed and documented revised financial systems and controls in the Tools Division of Škoda Plzeň Concern. The systems are in line with Czechoslovak accounting regulations and, with minor modification, are capable of meeting revised standards being introduced in 1 January 1993. The management reporting procedures introduced reflect best international accounting standards and will allow the Tools Division to function as an independent operation within Škoda Plzeň Concern.

5 The documented procedure manuals relating to the System and Accounting functions have been designed around the use of the MAX financial software that was selected by Škoda Plzeň prior to the start of the project. Thus these documents will form the basis of future implementations within the Concern where this software is installed.

6 For clarity this section has been divided as follows:

- a) Management and Organisation Structure;
- b) Financial Controls and Capabilities;
- c) System Implementation.

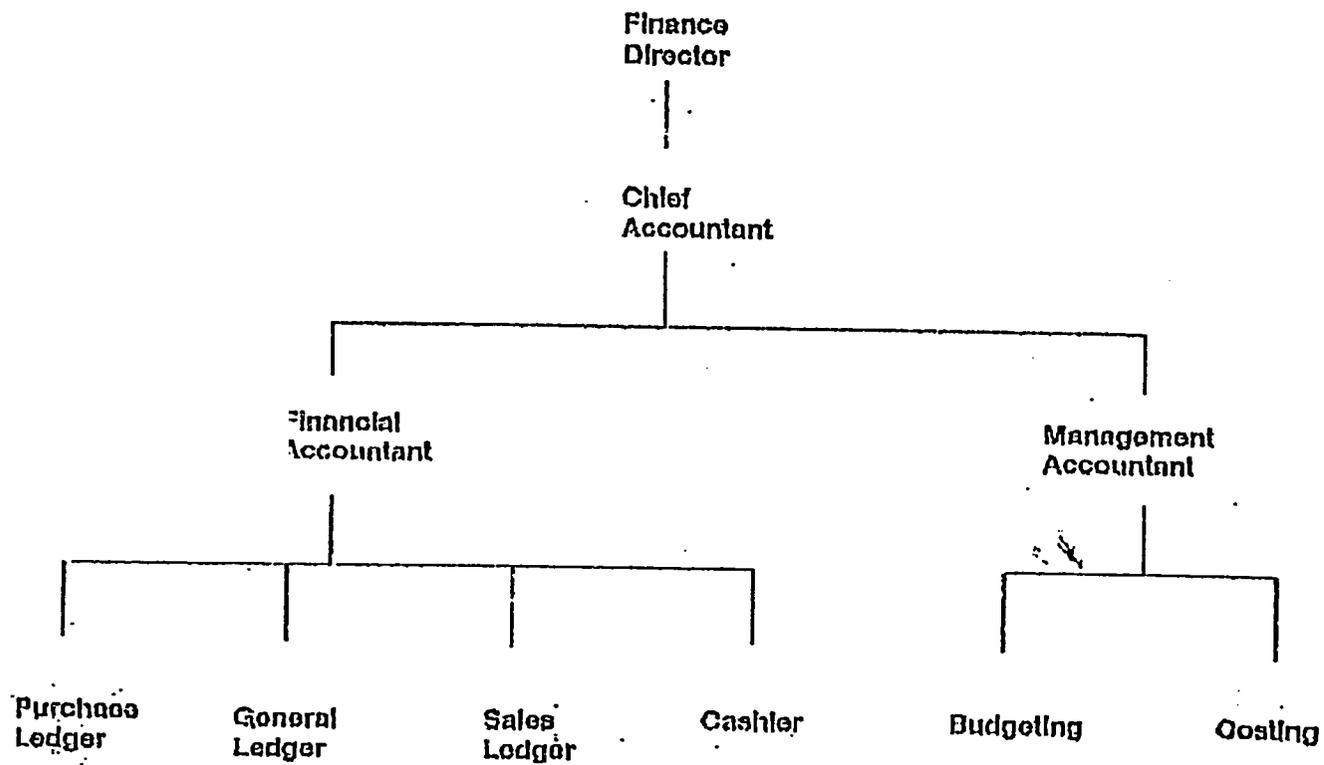
Management and Organisation Structure

7 The management and organisational structure of the Škoda Plzeň Concern was historically centralised with all the key financial, sales and purchasing functions operating at the Headquarters level. The initial work with Tools Division focused on identifying the personnel required to set up these relevant functions. We agreed with Tools Divisions management the basic level of staff required in the key financial functions. The structure finally agreed (see diagram One) represents the most effective one that could be designed around a limited skilled staff base.

PROPOSED FINANCE DEPARTMENT ORGANIZATION

DIAGRAM 1

TOOLS DIVISION



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8 It is important to realise at this stage that Tools Division prior to the project carried out no customer invoicing, supplier payments or cash flow management operations. In addition, inter-concern transactions were treated very differently to 3rd party supplier customers transaction. Thus the skills required within the Tools Division in some cases did not even exist within the Concern.

9 At this stage in the process we carried out basic ~~concepts~~ education in the form of the understanding Western accounting principles. This covered the typical financial management information generated on a monthly basis for effective operations management. We also addressed the issue of product costing outlining different and simpler techniques that could be adopted by the Division. We do not believe that this area has as yet been fully reviewed by the Tools Division.

10 The overall aim of the finance organisation structure was to create a department that focused on the information needs of the operational, sales and purchasing functions. In particular, the structure highlights the split between financial and management accounting functions. We have provided Tools Division with detailed job descriptions for individuals and have clearly identified within the procedures specific responsibilities for individuals within the organisation.

Financial Controls and Capabilities

11 The MAX Financial system consists of an integrated set of Purchase, Sales and General ledgers, and Cash Book. The financial system integrates with the manufacturing system which provides facilities for invoice registration, purchase and sales order processing, invoicing, inventory control, and product costing. The General Ledger system incorporates a report writer which we have used to generate management reports.

12 The system incorporates financial controls to ensure that:

all general ledger entries are validated to ensure that

- they are posted to a valid accounting code;
- they are posted as part of a double entry;
- they are posted as part of a balancing journal;

month end processing is validated to ensure that all transactions for the month that have been entered into the system have been posted to the ledgers;

all invoices are entered into an invoice register;

the purchase ledger incorporates controls to ensure that only valid invoices are passed for payment;

the reports produced by the system include:

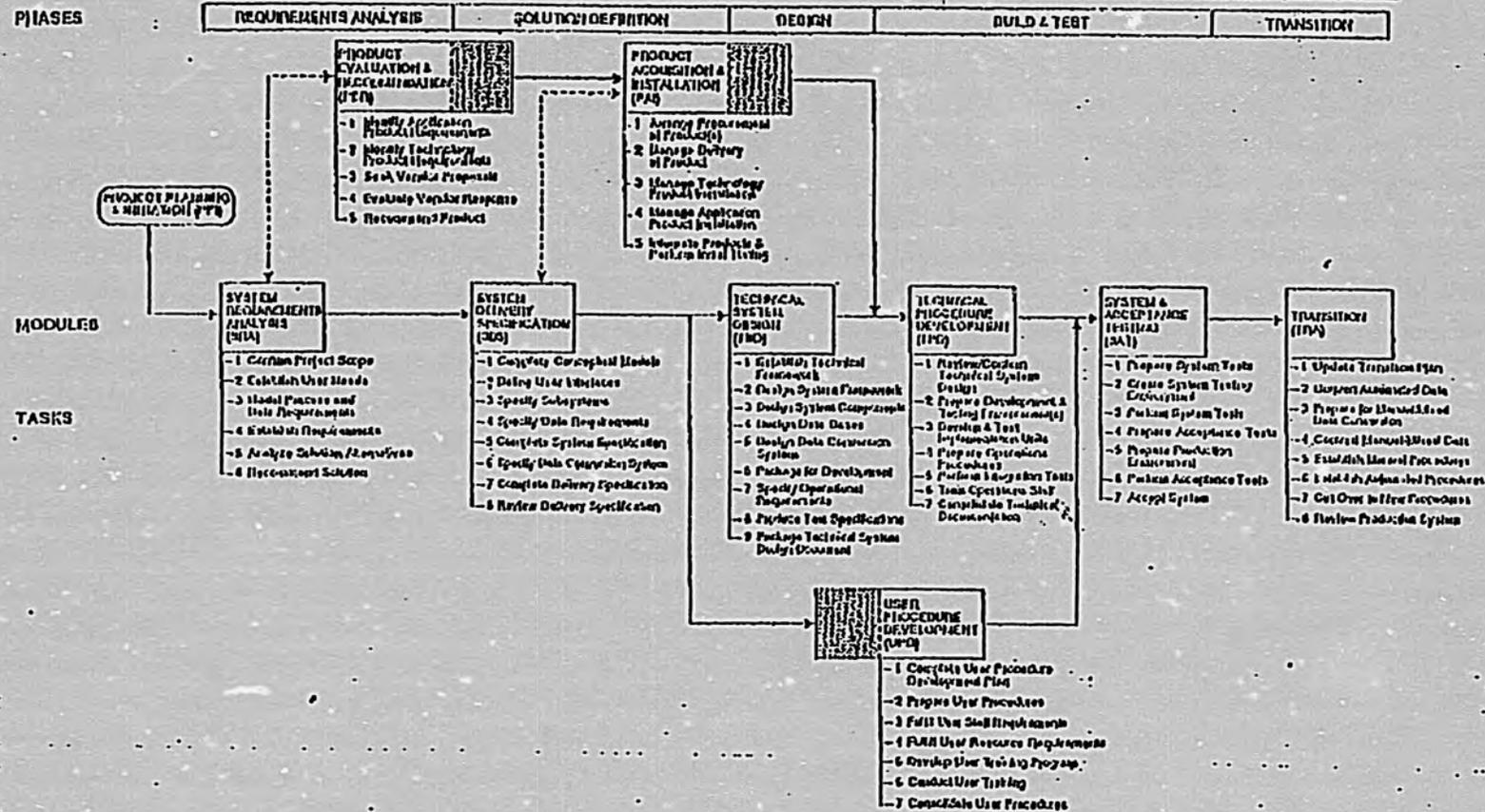
- monthly trial balance;
- Profit and Loss Report;
- Balance Sheet;
- cost centre statement comparing budgets against actual figures for both the month and cumulative year-to-date;
- cost centre transaction report detailing the transactions posted during the month to each cost centre;
- interface reports showing the movements posted from the manufacturing system;
- aged debtors list from the Sales Ledger;
- creditors list;
- invoices due for payment list;

a cash flow forecasting system has been developed on a PC based spreadsheet;

access to the system is restricted to different classes of users which are identified by user ID. The access for each class of users is restricted according to their needs by passwords.

13 The system has been set up on the assumption that the Tools Division is a self accounting entity. However, procedures have been incorporated to take into account the transfer of data between the central accounting department and the Tools Division. In principal the system is capable of supporting the accounting in other divisions of Skoda, and of other enterprises. However, each division or enterprise will have specific needs which should be addressed in the implementation. In particular, these needs will relate to management information and reporting.

METHODOLOGY OVERVIEW



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System Implementation

14 Our approach to the detailed design and implementation of the Financial Systems focused around the effective use of ICL MAX software which Škoda Plzeň had already purchased. In Tools Division they had already started the implementation of the manufacturing and stock control modules, thus it was vital that the financial solution was fully integrated. However, we must point out, that by completion of the financial system several modules of manufacturing system were still not implemented. This forced the development of manual systems to ensure key financial data requirements were met.

15 We applied Coopers & Lybrand Summit - D methodology (See Diagram Two) as the framework to analyse design and implement the financial systems and controls. Table One shows the overall project plan revised in April 1992. We have briefly outlined below the key activities carried out in each stage.

- a) System Requirements Analysis
- b) Delivery Specifications
- c) Technical Procedures
- d) User Procedures development
- e) Acceptance and Integration Testing
- f) Conversion
- g) User Training

16 The ICL MAX financial software which was installed is divided into the following modules:

- General ledger
- Sales ledger
- Purchase ledger
- Fixed Assets
- Bank System

17 As the hardware and software had already been installed, the Product evaluation and Product acquisition stages in the Summit - D methodology were not required.

System Requirements Analysis

18 This stage analysed and documented the business requirements to be supported by the system. Initially no attempt was made to distinguish between manual and automated requirements or how this might be achieved.

19 This stage identified the impact of alternative solutions to meet accounting requirements or organisational limitations. In particular it was crucial to address the existing control bank system within the Concern which operated a single bank account. Following discussions with Concern - sub-accounts were set up for all the Divisions allowing control on a Divisional basis of income and expenditure.

Delivery Specification

20 This stage produced a detailed specification of the system focusing on what the financial system is to achieve.

Technical Procedures

21 This identified how the proposed system would be built in terms of modification required to the ICL MAX Software. During the process we identified a number of software faults, and required software modifications carried out in order to achieve the specification requirements.

User Procedures Development

22 The purpose of this stage was to provide the users with documented procedures to enable them to use the technical system accurately and to exploit its facilities to achieve commercial benefits. It was critical during this phase to maintain close communication with key users involved. A summary of the documentation is

given later in this report.

Acceptance Testing

23. We verified that the system performed to specification, ensuring all business functions could operate. We examined start-up and shut down procedures, interfaces between modules, back up and recovery procedures, and security.

Conversion

24. This basically comprised of:

- a) planning and controlling the conversion of data required for the new system;
- b) installing new automated and manual procedures;
- c) to hand over the system to the user management.

User Training

25. We carried out training on three levels during the implementation:

- a) Concept education; this was a mixture of group presentations and one to one training outlining the basic structure and outputs of the new system.
- b) System Training; we worked with a number of key staff throughout the process.
- c) Procedural Training; we carried out a detailed training for all staff covering the accountancy changes and system operation.

26. We found the quality of the translated version of the MAX software to be reasonably good.

III . DOCUMENTATION

27 All the detailed User manuals have been produced in Czech and we have outlined below the contents. In addition, we have supplied an Interim Report which covers a number of outputs from the System Specification stage, and a Western accounting presentation used to explain basic concepts to middle-management early in the process.

28 The contents of the manuals are as follows:

System Manual

- i) Manufacturing and Accounting Interfaces
- ii) Purchasing and Accounting Interfaces
- iii) Sales and Accounting Interfaces
- iv) Accounting

b) User Manual

- i) General Ledger
- ii) Purchase Ledger
- iii) Bank Module
- iv) Tax Module

c) . . Accounting Manual

- i) Introduction
 - ii) Identifying Bill of Account Structure
 - iii) Accounting Documentation
 - iv) Accounting Documentation Flax
 - v) Signature Control
 - vi) Accounting Ledgers
 - vii) Inter company Regulations
 - viii) Period and Accounts
 - ix) Key legal regulations
 - x) Recommended Literature
- Appendices

IV CONCLUSIONS

29 The project was completed within the timescales of the revised plan (April 1992). However, a number of issues combined to create significant problems for the implementation team. These were: the move to an integrated manufacturing and financial software package; the change in the structure of the business, the limited skills of the middle management and clerical staff, and in particular the cultural differences of working to tight deadlines and ensuring individuals took on key responsibilities. All these issues, forced the team to greatly increase its resources to ensure success.

30 The successful outcome from the work has provided a sound basis for applying new financial systems to many businesses within the CSFR. The Škoda Plzeň business structure is typical of many local manufacturing industries, thus the principles of the structure and the practical solutions implemented can be applied elsewhere.

Confidentiality

31 Under the terms of the aforementioned contract, this report and manuals shall not be made available to any other party in whole or part without prior written consent. No persons other than those to whom this report is addressed or to whom it has been released with our consent may rely upon it for any purpose whatsoever.

32 If you have any questions please do not hesitate to contact either John Hunter or John Cromack in our Prague office.

Yours sincerely

John Hunter
Partner

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