IP/02/1904

Brussels, 17 December 2002

Commission adopts ambitious action plan to implement full accrual accounting by 2005

The new Financial Regulation – proposed by the Prodi-Commission in 2000 and adopted unanimously by Council in June 2002 - sets the new legal framework for sound financial management of the EU Budget. This new law requires the Commission to complete its shift to accrual accounting for its general accounts by 2005. The Commission began this phase of the modernisation of its accounting system in 2000 with a thorough independent analysis of our accounts' strengths and weaknesses. Today, the Commission details the further measures which need to be implemented, to change the accounting framework and to modernise the information systems underpinning it. Given the complexities of such a move, implementing all measures up to 2005 is an ambitious target. The experience of the few national administrations which have made similar reforms, most notably the UK, the Netherlands and Sweden testifies to this. Budget Commissioner Michaele Schreyer welcomed the adoption of the plan: "Today's action plan is the latest step in this long term strategy of modernisation: it maps the Commission's progress towards the wholesale implementation of the most up-to-date public sector accounting standards by 2005, taking into account all the constraints and necessary detailed changes. With these measures the Commission will be once again far ahead of most national administrations in the world." To manage this ambitious reform, the Commission has appointed Mr. Brian Gray, an official of grade A1 – the highest in the house – and Deputy Director-General for the Budget, as Accounting Officer of the institution. Mr. Gray is a member of the Institute of Chartered Accountants of England and Wales and will take office on 1st January 2003.

Adopting the latest International Public Sector Accounting Standards

The Commission produces two types of accounts:

- The budget accounts: these give a detailed picture of implementation of the annual budget, and are essential for the work of the budgetary authority.
- The general accounts: these give a global view of the "economic situation" of the Commission over and above the implementation of the budget, to take into account the value of assets (such as buildings and loans for example) and other elements (as depreciation, provisions, etc.). Such accounts are therefore based on accrual accounting principles.

The Court of Auditors has in its 2001 Annual Report stated, as it has in the past, that the accounts of the budget reflect reliably the revenue and expenditure as well as the financial situation of the Community. The Court nevertheless has urged the Commission to upgrade the cash accounting system into a full integrated accrual accounting system. The criticisms of the Court relate basically to the general accounts and accrual elements.

The new Financial Regulation lays down an accounting framework based on a “dual” system, by which the general accounts are based on accrual accounting, whereas the budget implementation remains “cash-based”, that is to say records expenditure and revenue.

The Commission has already started the move to accrual accounting for the general accounts. However, the accrual accounting elements, which exist, are not based on the standard accounting information available in the system but are collected separately and later consolidated into the accounts. Moreover, they do not provide information on the agencies set up by the European Union to carry out some of its tasks, despite the fact that they are financed in full or in part by the EU budget. This needs to be changed, so that all the accounting elements are integrated into a single framework based on the latest “International Public Sector Accounting Standards” (IPSAS), of which there are some 20, and on international accounting standards whenever there are no IPSAS available.

The action plan sets out the different measures focused principally in 4 areas:

- **devising the new accounting framework** by establishing new accounting standards, setting up an Accounting Standards Committee, adapting the chart of accounts, extending the scope of consolidation and bringing the financial statements into line with the International Federation of Accountants (IFAC) accrual accounting recommendations.
- The Commission recognises that IPSAS standards will need to be adapted and supplemented in some respects to obtain a framework of accounting principles appropriate to the European Union. The aim of the Accounting Standards Committee is to deliver an independent professional judgement on the accounting standards and rules proposed by the Commission’s Accounting Officer.
- **integrating the accounting data** linking the budget accounts with the general accounts via economic, organic and functional codes; integrating contingent assets and liabilities, as well as pre-financing, and linking the Central Invoice Register with the general accounts.
- **organising internal control of accounting data** by expanding the present internal controls in the DGs to include accounting aspects, supporting evidence for balance sheet balances through inventories, certification of local systems and producing accounting reports by DG.
- **training and awareness raising among those concerned is needed t**o reap the full benefits of the transition to accrual accounting. All personnel involved need to understand the reasons for the change, as well as the new accounting rules and policies.

Integrating the underlying information systems to provide accurate accounting data on an automated basis

The Commission’s central financial management and accounting needs are provided for by a central computer system (SINCOM2), introduced for the first time in 1997 and extended to cover all Commission services in 1999. The architecture of this system is complex and comprises three different systems which are inter-linked and are also linked with sectoral systems developed by the spending services to meet sectoral management needs.

The standard accounting package SAP is the official accounting system of the Commission. It is from this system that the Commission produces its financial statements. The Commission decided in the SINCOM2 project to create a system (Si2) in which the managing services could introduce their transactions without making detailed accounting entries before approving them and sending them into the central accounting system.

SINCOM2 was developed to support the production of cash-based financial statements in line with standard public sector practice at the time. Consequently, the system does not support the production of accrual accounts, as required by the Financial Regulation from the 2005 financial year.

In addition to the pure accounting functionality within SINCOM2, the Commission began as part of the financial reform to develop management functionality, which is integrated within SINCOM2. To date, a central invoice register (allowing services to register invoices received and to manage payment deadlines) has been put into production. A central database of contracts and contractors (ICON) is also being developed and is currently implemented on a pilot basis in two specific areas.

The July memorandum identified 3 main options for the future:

Option 1: Continued use of the current system

Option 2: A single standard package

Option 3: A new integrated system

In order to evaluate options 2 and 3 an external study will be commissioned as early as possible to examine options 2 and 3 and notably the latter option – how sectoral systems can be included in the overall system architecture.

The action plan adopted by the Commission sets up at the same time the steps for improving the current system and the development of the new integrated system.

Given the complex nature of the project, a full commitment and leadership from the top management of DG Budget will be ensured. A Project Oversight Board, presided by the Director General for the Budget and including representatives from the horizontal services (General Secretariat and Personnel and Administration) as well as from each sector of Commission activity, will be established.

The Accounting Officer will have the central responsibility in conducting the project, establishing accounting standards and validating information systems. All resources and competencies, including information services, within DG Budget and the Commission, as well as external expertise, will be pooled at the service of the Accounting Officer in order to achieve the objectives of the project. The Accounting Officer will chair the Accounting Standards Committee.

Given the size and the complex nature of the project and the enhanced responsibilities of the Accounting Officer defined by the new Financial Regulation entering into force on 1st January 2003, the Commission has decided to appoint as Accounting Officer an official of the highest grade in the institution, A1. Mr. Brian Gray, Chartered Accountant, a former Resource Director in the Directorate General for Regional Policy, will take office as Accounting Officer of the Commission and Deputy-Director General for the Budget on 1st January 2003.

Mr. Marc Oostens, current Accounting Officer of the Commission, will continue to manage the accounting department of the Directorate General for the Budget. With these decisions, the Commissions places two highly qualified and experienced accountants to head up the project.

Note for the editors

In recent years, the modernisation of public management has become a major concern. Public accounting practices, most often oriented towards recording payments and receipts, must become a genuine management tool **and** make the government's or public organisation's financial situation more readily understandable and comprehensive.

The Commission is not alone in moving towards the adoption of generally-accepted accrual accounting principles. Some developed countries are also engaged in the same process and, encouraged by international bodies and organisations such as the OECD and IFAC (International Federation of Accountants), have begun to modernise their accounting systems over the past few years, switching from a cash-based to an accruals-based system.

The Commission launched a multiannual plan in 2000 for the modernisation of its accounting framework, which comprised:

- undertaking a study on the establishment and presentation of the accounts of the EU delivered in mid-2000 by high-level experts on public accounting;
- drawing up in June 2001, an action plan for modernisation, which was discussed with the Court of Auditors. The Court has welcomed the document orientations;
- introducing elements of accrual accounting in the presentation of the financial statements
- calculating the economic outturn since 2000. This "represents a step forward, [and] is in line with the general trend observed in the public sector at international level"[1], and
- adopting an accounting and consolidation manual for all the Institutions;
- analysing several Member States' experience (United Kingdom, France, Sweden, Spain, Netherlands);
- adopting the new Financial Regulation;
- on 24 July 2002 the Member of the Commission responsible for the budget presented a memorandum (SEC(2002)853) to the Commission describing the wide-ranging work to modernise the accounting framework and information system.

The adoption of this communication brings to a close the preparations needed to implement the provisions of the new Financial Regulation.

[1] Court of Auditors - Annual report concerning the financial year 2000 (2001/C 359/01)-9.36