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**COMMUNICATION FROM THE COMMISSION**

**PROGRESS REPORT AS AT 31 MARCH 2008 ON THE MODERNISATION OF THE  
ACCOUNTING SYSTEM OF THE EUROPEAN COMMISSION**

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## 1. INTRODUCTION

On 17 December 2002, the Commission adopted its Communication on modernisation of the accounting system of the European Communities<sup>1</sup>. An accrual-based accounting system was put in place in January 2005 and from that year accounts are prepared in accordance with internationally accepted accounting standards, thus respecting the deadlines set in the Financial Regulation.

The transition to a new accounting system gives the European Commission greater day-to-day control over its finances and provides it with better financial information. The Commission's external auditors and discharge authorities have been largely satisfied with the progress made.

The work on modernising the financial accounting system is, however, a long project. Attaining full compliance with all accounting standards, obtaining efficient and complete management reporting and achieving a more fully integrated IT system is a process which takes time. The accrual-based accounting system continued to be developed throughout 2007, and development will continue in 2008 and 2009.

The Commission has regularly presented reports<sup>2</sup> on the progress made with the modernisation project since 2002. The present Communication summarises the progress made in the year to 31 March 2008. Like the preceding reports, it will be communicated to the relevant committees of the discharge authorities and to the Court of Auditors.

## 2. SUMMARY OF IMPLEMENTATION IN THE YEAR TO 31 MARCH 2008

The main objectives of the modernisation project are pursued through a rolling two-year action plan, an updated summary of which is annexed to each annual report. The principal achievements in the year of the present report are set out below.

### **Improving the reliability of the accounts**

Through its network of Accounting Correspondents, DG Budget endeavours to improve controls in regard to the accounting activities during the year and the closure of each year's accounts. A team verifies that the financial systems of the authorising services respect certain criteria aimed at ensuring the timeliness, accuracy and completeness of accounting data. The systems of all but two DGs had been validated by 31 March 2008.

DG Budget also coordinates a network of Accounting Officers of the Agencies and of the other Institutions in order to promote high quality in the Communities' consolidated accounts.

In July 2007, for the first time, the Accounting Officers of the Commission and of the Agencies and other Institutions signed off their annual accounts.

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<sup>1</sup> COM(2002) 755.

<sup>2</sup> at 30 June 2003 (SEC(2003) 790), at 31 December 2003 (SEC(2004) 118), at 30 June 2004 (COM(2004) 565), at 31 January 2005 (COM(2005) 90), at 31 March 2006 (COM(2006) 358), and at 31 March 2007 (COM(2007) 343).

## **Developing and extending the IT system, ABAC**

With the extension of the ABAC system to the Delegations and Representations in 2007, all Commission services are now connected to ABAC. The system is being extended to all Executive Agencies, to those Traditional Agencies which wish to use it, to the European Data Protection Supervisor and to the two Committees. Six of these bodies were connected during the reporting year, bringing the total to 15. The project entailing the transferral of the accounts of the European Development Fund restarted in 2007, and is on track to be completed by the end of 2008.

As part of the strategy of integrating the principal financial systems onto a common IT platform in the medium term:

- The budgetary accounting system was transferred to a new budgetary control module (BCS), which should allow local budgetary lines to be managed in the central SAP system instead of in ABAC-Workflow.
- A plan to transfer the management of asset procurement and inventories to an SAP module progressed from a study of its feasibility to the delivery of functional specifications for the Brussels and Luxemburg Infrastructure Offices (OIB and OIL). The new system should be in place by 2009.
- The scope for transferring more functionalities to the SAP system was studied, as were the options for developing a better contract managing system than the present ABAC-Contracts.

## **Developing financial reporting**

The single data warehouse went into production in July 2007, as planned. It has been used to prepare the annexes to the 2007 annual activity reports, and the information on payments which was communicated to each Member State's Supreme Audit Institution in order to promote better controls. Reporting on the Commission's financial relationship with individual beneficiaries is now well developed, but further work on other reporting facilities is necessary before user needs can be satisfied.

## **Training and user support**

The Commission continued to deliver high-quality training courses on financial matters to Commission staff across the world, and to staff in the Agencies and other Institutions. Satisfaction with the quality of training rose to 96% in 2007.

### **3. IMPLEMENTATION OF A MODERNISED ACCOUNTING SYSTEM IN THE COMMISSION**

#### **3.1. Annual accounts**

##### *European Communities' annual accounts 2005 and 2006*

The annual accounts of the EC were prepared for 2005 and 2006 using the modernised accounting system. These accounts were deemed reliable by the Court of Auditors following their audits, although some reservations and remarks were expressed which did not affect the accounts as a whole, but which led to further

improvements being made to the accounting controls. Both accounts have now received a discharge from the Parliament.

### ***European Communities' annual accounts 2007***

The provisional 2007 accounts were delivered to the Court on 31 March 2008 and are currently being audited. Following any adjustments as a result of the Auditors' findings, the final accounts for 2007 will be signed off by the Accounting Officer and adopted by the Commission before 31 July 2008.

The quality of the accounts is improving year on year as users become more familiar with the new system and rules. Additionally, initiatives like the accounting quality project (see below) appear to be contributing to a general improvement in the reliability of the accounting data and thus of the annual accounts. No Director-General or Head of Service included an accounting reservation in the declaration accompanying his or her 2007 Annual Activity Report.

With regard to the accounts themselves, the Commission has tried each year to improve the information disclosed so as to make it more relevant and understandable to the reader. An example is the information presented about the recovery of undue payments and financial corrections, an area that is of particular interest to the discharge authorities.

## **3.2. Training**

A significant effort concerning staff training continued in 2007, the main achievements in this area being:

- Delivery of more than 4 100 participant-days of ABAC and SAP training to Commission staff in Brussels and Luxembourg, including a specific set of sessions dedicated to Commission staff in Delegations;
- Satisfaction with the quality of training rose from 91% in 2005 to 94% in 2006 and to 96% in 2007, with 44% finding the courses "very good", compared to 38% in 2006;
- Ordering of a specific training package for Agencies, meeting their particular needs. It became available at the end of April 2008;
- Launch and management of a call for tenders for renewal of the framework contract for financial training (which expired on 23 March 2008). The new contract was signed on 7 March 2008 and is now inter-institutional, allowing every Agency or other Institution to use it.

The main objective for 2008 is to continue delivering high-quality training courses to Commission staff across the world, and to staff in other Institutions and Agencies, and to adapt these courses to new IT developments. Training on accounting issues will also be intensified in 2008, as it is intended to develop a practical course highlighting the links between the entry of transactions in ABAC and the accounting impact of such operations.

#### **4. ACCOUNTING CONTROL ENVIRONMENT AND VALIDATION OF LOCAL SYSTEMS**

As a result of the adoption of the new accounting framework, each Directorate-General and Service was asked to ensure that its accounting procedures were sufficiently well organised to achieve a high level of quality in the accounting data. The quality of the data introduced into the accounting system directly or via local IT systems depends on the control environment put in place by each Authorising Officer by delegation. In order to help Authorising Officers to give a reasonable assurance to the Accounting Officer that the accounts present a true and fair view of the financial position, DG Budget introduced two tools: the accounting quality project and the validation of local systems.

##### **4.1. Accounting quality project**

In order to improve the accounting environment in each DG over the medium term, an 'accounting quality' project was developed during 2006 and launched in all DGs in March 2007. The objective of this project is to present to the authorising services the IT tools made available to them, and the controls which enable them to ensure high quality of the accounts for the operations managed by them. The responsibilities and the roles of the main financial actors were defined, in particular that of the Accounting Correspondent who is now formally integrated into the internal organisation of each DG. Several guidelines and practical aids were developed by the accounting services and presented to the DGs.

Each Directorate-General or Service draws up a register of the accounting risks, and proposes a pragmatic action plan to control the risks identified. The accounting revision consists in undertaking a regular, documented review of the proper application of the accounting procedures or controls. All the revision work, the description of controls carried out and their frequency, the presentation of the results obtained and measures taken to remedy detected weaknesses are formalised in a revision file. The action plan and the summary revision file are sent to the Accounting Officer for analyses and comments.

This project started to bear fruit in 2007, when fewer corrections had to be made to the data sent at the closure of the accounts.

##### **4.2. Validation of local systems**

The use of local IT systems for accounting purposes is a source of risk for the quality of data, and an additional layer of complexity. The DGs using local systems are responsible for the quality and integrity of their accounting information, and for ensuring that their systems remain aligned with ABAC. One of the duties of the Accounting Officer is to validate the accounting systems laid down by the Authorising Officers. This is done by verifying that certain criteria are met by these systems and by their surrounding controls, either on-the-spot or, in the case of services managing smaller portions of the budget, through questionnaires. Significant changes to these systems are also examined. An annual report summarises the work done and presents the issues common to many DGs.

DG Budget's validation team also monitors the controls within all DGs and Services which ensure that the guidance given under the accounting quality project is adhered



to. In particular, checks are performed on cut-off methodologies and calculations needed for the closure of the accounts.

During 2007, the team undertook a programme of evaluation for eight systems laid down by Authorising Officers to supply or justify accounting information, as required under Article 61(1)(e) of the Financial Regulation. This brings the number of services subjected to on-the-spot checks to thirty over the period 2005/2007. These checks covered the bulk of expenditure incurred by the Commission.

Extensive work was also carried out in relation to the follow-up on issues which had been identified in previous reports. The results of this investigation were incorporated in a Global Report covering the year 2007 and issued at the beginning of April 2008. Services have generally taken appropriate measures to address the main issues raised over the years.

A procedure to enable the Accounting Officer to examine (and if satisfied, to give his agreement) to proposed changes in local IT and administrative systems came into force in June 2006. This has led to the examination and approval of 15 such material changes during 2007.

At the date of the last progress report, the systems of three DGs remained to be validated (AIDCO, EAC and RELEX), and a reserve remained regarding JRC's use of ABAC-Contracts.

With regard to DG AIDCO, the previously noted improvements led to the validation of its local system, with a reserve regarding its local IT system which has been lifted in 2008, since now CRIS is systematically reconciled with the central accounting system. The JRC has uploaded all its 2007 contracts to the central database (ABAC Contracts). The contracts for 2005 and 2006 will have to follow in order for it to fulfil its obligations.

The systems of EAC and RELEX have not yet been validated. Some issues remain to be resolved in both DGs although significant progress was made during 2007, notably the improvements to the internal control systems in DG EAC and the successful introduction of ABAC in the Delegations by DG RELEX.

## **5. IT DEVELOPMENTS FOR THE GENERAL BUDGET**

The IT development plan is intended to provide the information system with the features that are required to improve financial accounting, controls and reporting, and to obtain better integration of the various IT modules. The purpose of the IT strategy is to standardise application platforms in order to improve user support and to lower maintenance costs.

Since 2005, the Commission has been working actively to limit its accounting application to two platforms only, i.e. SAP for ABAC Accounting and JAVA for ABAC Workflow. Its medium-term strategy is to integrate all the Commission's accounting processes into a single platform. This strategic plan is being guided by the 'buy-before-build' principle that favours commercially available off-the-shelf software over in-house bespoke application development.

As part of this strategy, DG Budget has implemented the SAP BCS module for its budget management, has tested and analysed a standard SAP solution for asset management, is analysing a standard solution for procurement and is examining the options for a new SAP application architecture. The progress made in all these initiatives is described below, and in more detail in Annex 1.

### **5.1. ABAC upgrades**

During the period April 2007 – March 2008, three releases of ABAC Workflow and associated modules were brought into production. The main objectives of these releases can be summarised as: enhancing functionalities supporting the execution of the budget and the management of the general accounts; implementation of support for the Financial Regulation as amended in 2007; and the gradual recasting of the technical foundations on which ABAC is built.

- **ABAC Assets**

DG Budget is restricting investment in ABAC Assets to essential maintenance and minor improvements (notably for the EU Delegations). The gradual phasing-out of ABAC Assets will be timed to coincide with the deployment of its successor, ABAC SAM (see §5.4 below). Directorate Generals should not use the two systems in parallel.

- **ABAC Contracts**

For ABAC Contracts, preliminary work is being undertaken to assess the feasibility of integrating its functionalities into the ABAC corporate system, profiting from the experience gained by Directorate-General JLS when introducing SAP Grantor. In the meantime, investment in ABAC Contracts is limited to essential maintenance.

- **Single Data Warehouse**

It is difficult to synchronise the information in the two present financial data warehouses, and to reconcile this information to the accounts. They are being progressively replaced by a single data warehouse, built on accounting principles, and are scheduled to be closed down in mid-2009.

### **5.2. IT Development Process and Systems architecture**

Improvements in the IT development process are guided by a data modelling methodology supported by dedicated tools. This approach ensures that IT systems are aligned to the operational procedures of the Commission, that all documentation is centralised and up-to-date and that the software engineering is efficient.

### **5.3. Budget Control System (BCS)**

The new version of the SAP FM module, BCS, replaced in April 2008 the FBS version used for central budget management, as it is capable of incorporating the local budgetary lines required to provide departments with a more detailed system for managing their budgets.

#### **5.4. SAM (Supply and Assets Management)**

As part of its IT systems integration strategy, DG BUDG is carefully analysing and developing a fully integrated Supply and Assets Management module to replace the present ABAC Assets. An initial demonstration of the Supply and Assets Management module was presented to DG BUDG and OIB in March 2007, resulting in a decision to proceed to the next stage. A full Proof of Concept analysis and prototyping was presented to DG BUDG, OIB and OIL in July 2007. This resulted in a decision to proceed with the deployment of the new module. The needs of all 12 services managing assets will progressively be integrated into SAM. This work is progressing on schedule, with two offices, OIB and OIL, set to become the first client services to use the new module at the end of 2008. All services should work with SAM by 2011; special attention will be made to the particularities of DG RELEX.

#### **6. ABAC DELEGATIONS**

Since January 2007, all the Delegations have been working directly with the ABAC system, which now includes an Imprest Account module for the simplified recording of small payments (below 300 euro), and facilities for bank and cash reconciliations. ABAC Assets was adapted for use by Delegations in April 2007, so all the Commission inventory of assets is now in the ABAC system.

During 2007, a number of improvements were made to the IT system to remedy problems reported by Delegations, and the missing functionalities of ABAC Assets were introduced.

For the Delegations, this also meant a cultural change from cash to accrual accounting, a more far-reaching development than only making changes to IT systems. Delegations had to develop expertise in each area, and this must be properly applied before RELEX's financial systems can be validated (see 4.2 above).

#### **7. EUROPEAN DEVELOPMENT FUND**

The IT platform for the accounts of the European Development Fund, which differ from those of the General Budget, is also being modernised.

The ABAC developments needed for the EDF were largely completed and tested by mid-2006, but the implementation of the new IT system (CRIS-ABAC-EDF) has had to be postponed, mainly because of the need for DG AIDCO to complete the developments necessary for CRIS to comply with the accrual accounting rules for the General Budget. Implementation of the new IT system for the EDF is now planned for January 2009. Both DGs are fully committed to meeting this deadline.

2008 should therefore be the last year for which EDF accounts are drawn up from records that do not comply with international standards. Although the new IT systems are still being developed, the EDF annual accounts have been established in compliance with accrual-based accounting principles since 2005.

## 8. IMPLEMENTATION OF ABAC BY THE OTHER INSTITUTIONS AND AGENCIES

Agencies and other Institutions have the autonomy to choose between ABAC or any other system. For those choosing ABAC, a dedicated project team reporting directly to the Commission's Accounting Officer plans, analyses and coordinates all activities accompanying the roll-out of ABAC, in terms of both timing and resources.

A specific financial and accounting environment is implemented in ABAC for each Agency, whose accounting officer remains responsible for its accounts and for the execution of its payments.

Five regulatory agencies<sup>3</sup> were connected to the ABAC system during 2007. Nine further agencies will start using ABAC in 2008<sup>4</sup>: At least twelve further agencies or bodies are due to be connected to ABAC in 2009 and 2010. The SI2 module currently used by these bodies is being phased out gradually and will be maintained until all are connected.

## 9. CONCLUSION

The new accounting system of the European Commission has allowed it to meet the statutory deadlines set for the preparation of annual accounts, prepared on an accrual basis and which comply in all material respects with internationally accepted accounting standards.

The project cannot rest on its laurels. The accounting and financial processes must continue to be improved and developed further. The most immediate challenges now remaining are to:

- Continue making the necessary improvements to the systems to ensure that all accounting transactions are recorded accurately by the DGs,
- Complete the validation of the RELEX and EAC local systems,
- Incorporate the EDF accounts in ABAC and train staff in 46 Delegations,
- Optimise the integration of the IT systems, integrating, when possible, the Commission's accounting processes into one single platform,
- Enhance financial and management reporting,
- Provide the same level of service to new clients (eg. the Agencies).

The project plan for the next two years addresses these aims, and the Commission remains committed to achieving the highest standards of accounting in the public sector.

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<sup>3</sup> FRA, Eurojust, Eurofound, CFCA, ECHA

<sup>4</sup> three executive agencies (TEN-T EA, ERCEA, REA) and six regulatory agencies (F4E, CEPOL, OSHA, ENISA, EMCDDA, CdT)

Faced with these increasingly demanding challenges, DG Budget recognises that its current accounting system has reached its limits in how it records and reports the expenditure and income of the General Budget, and that it needs to push ahead with its strategy to manage the General Budget on one single and standard platform using software which can be readily maintained by its supplier.

This exercise will challenge the current way of accounting for Commission operations. It will require an open and flexible approach but will be instrumental in keeping the Commission at the forefront of public sector accounting under IPSAS.