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PROGRESS REPORT AS AT 31 MARCH 2007 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 the modernisation of the accounting system of the European Communities[1]. An accrual-based accounting system was put in place in January 2005 and the 2005 accounts were 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 Court of Auditors gave a positive opinion on the 2005 accounts, except for two reservations, and the discharge authority welcomed in particular the efforts made by the Commission to adopt the accounts for the financial year within the shortened Financial Regulation deadlines for the production of the financial statements.

The work on modernising the accounting system is however not yet complete. Attaining full compliance with all accounting standards and achieving a more fully integrated IT system is a process which takes time. The accrual-based accounting system continued to be developed throughout 2006, and development will continue in 2007 and 2008.

The Commission has presented reports[2] regularly on the progress made on the modernisation project since 2002. The present Communication summarises the progress made from April 2006 to 31 March 2007. 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 2007

During 2006 and first quarter 2007, the project was implemented largely in accordance with the project plan 2006-7 set out in Annex 1 to the Communication on progress to 31 March 2006. The plan for developing and improving the IT systems, annexed to this report, was updated and extended to 2008. It includes the integration of the European Development Fund and the Agencies into ABAC, building a Single Data Warehouse, better integrating the IT systems, and improving the accounting control environment and management reporting facilities.

As regards assuring the quality of accounting data, progress has been made in improving the control environment. Accounting controls have been reinforced, and all DGs and services deployed considerable efforts to help prepare the 2006 accounts, to check the data and make the necessary corrections, and to estimate the accrued expenditure at the end of the financial year on a coherent and consistent basis. In his report on the validation of local systems in 2006, the Accounting Officer noted that, in general, services had taken appropriate measures to address the important but not fundamental matters raised in his previous year's report, and underlined the significant progress made by the two DGs whose validation had been suspended in 2005. Furthermore, the Commission services have given the highest priority to

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1 COM(2002) 755.

2 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).

remedy the weaknesses underlined by the Court in the 2005 annual report. The 2006 provisional annual accounts were forwarded to the European Court of Auditors and to the Budgetary Authority by the legal deadline of 31 March 2007.

Significant progress has been made in developing the ABAC IT system. As planned, the delegations' imprest accounts were fully integrated into the ABAC system in January 2007. Two Institutions and six Agencies also migrated to the ABAC system during the year; an updated project plan for the migration of the EDF accounts to ABAC has been prepared and the Commission services are working to "go live" in January 2008. Work on the Single Data Warehouse progressed sufficiently for it to serve as a basis for the 2006 annual budgetary reporting of the Commission and some financial reports necessary for the calculation of the year-end estimations. The Commission services continue to work on the complete integration of the IT systems through the Budget Control System (BCS) project and the Assets II project.

3. IMPLEMENTATION OF MODERNISED ACCOUNTING IN THE COMMISSION

3.1. Annual accounts

EC annual accounts 2005

The first EC provisional annual accounts based on the new accrual accounting rules were presented to the Court of Auditors on 31 March 2006 as required by the Financial Regulation. Following this, the Court proceeded with its audit and examination of these accounts. The final accounts were then adopted by the Commission on 20 July 2006. The Court issued a positive opinion concerning the reliability of these accounts - it stated that the accounts present fairly, in all material aspects, the financial position and results of the EC for 2005, although with reservations. These reservations concerned an estimated overstatement of net assets of EUR 314 million (or 0.5% of net assets) and the lack of assurance surrounding the figures of DG EAC (as mentioned in the Annual activity Report of the Director-General responsible).

The discharge recommendation from the Council included an acknowledgement of the achievement of finalising these accounts within the tight timeframe set, and of the success of the move to accrual accounting, a sentiment repeated in Parliament's discharge report.

EC annual accounts 2006

The 2006 EC provisional annual accounts were transmitted to the Court of Auditors on 30 March 2007. These accounts are subject to audit before being approved by the Commission in July 2007. The lessons learnt from the problems and delays encountered during these first two years of accrual-based accounting should enable the Commission to assure a reasonable quality of the financial information. No Director-General or Head of Service included an accounting reservation in his or her 2006 Annual Activity Report.

The EC has undertaken to constantly improve the quality of the data underlying the accounts, and the presentation and readability of these accounts. In the 2006 accounts, it provided more information on the recovery of expenses and on financial corrections so as to make them more useful to stakeholders and other readers.

3.2. Training

A significant effort concerning staff training continued to be made in 2006, the main achievements in this area being:

– Delivery of nearly 4 000 participant days of ABAC training to Commission staff in Brussels and Luxembourg (one participant attending one day's training equals one participant day);

– Satisfaction with the quality of training rose from 91% in 2005 to 94% in 2006, of which 38% found the courses "very good", compared with 32% in 2005;

– Delivery of over 2.300 participant days of ABAC training to Commission staff in Delegations in preparation for the implementation of ABAC Delegations; and,

– Delivery of another 1 000 participant days of ABAC training to staff of other Institutions and Agencies to support the roll-out of ABAC.

The main objective for 2007 is to continue delivering high-quality training courses to staff across the world and to staff in Institutions and Agencies. A special effort regarding training on accounting issues will be undertaken in 2007 and 2008.

4. ACCOUNTING CONTROL ENVIRONMENT AND VALIDATION OF LOCAL SYSTEMS

4.1. Accounting quality

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 so as to achieve a high level of quality in the accounting data.

For the 2006 accounts, the Accounting Officer's staff carried out checks on the quality of the accounting data and organised meetings with the Accounting Correspondents of all the DGs in order to discuss the controls to be undertaken, and the closure and cut-off procedures. Checklists for the controls to be executed were transmitted and explained to all DGs.

In order to improve the accounting environment in each DG over the medium term, an 'accounting quality' project was developed during 2006. The objective of this project is to explain to the authorising services the tools made available to them, and the controls which enable them to guarantee the 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. The project was presented to the senior management of all DGs, and now the position of Accounting Correspondent is formally integrated in the internal organisation of each DG. Several guidelines and practical aids were developed by DG BUDG and presented to the DGs. The checklists and controls used for the closure of the 2006 accounts have been integrated in these practical aids.

After a trial in selected DGs, the implementation of the accounting quality project was launched in all DGs in March 2007, with the objective of putting the necessary actions in place during 2007. A significant obstacle to its success is the shortage of qualified accounting staff. The Commission continues to address this issue by launching specialised competitions.

4.2. Validation of local systems

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. DG Budget's validation team monitors such controls across all DGs and Services to ensure that the established quality criteria are met.

During 2006, the team undertook a programme of in-depth checks of nine systems laid down by the 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 these checks to twenty-two over the period 2005/2006 and covers the bulk of expenditure incurred by the Commission.

In addition, quality checks were performed on cut-off data (essential for the preparation of accrual-based accounts) generated by certain key services in order to ensure the reliability and accuracy of such information. Finally, a procedure for the prior notification of proposed changes to local (IT and administrative) systems came into operation on 1 June 2006, thus enabling the Accounting Officer to carefully consider how such proposals complied with validation criteria before they were introduced.

The validation team completed all the work planned in the Directorates-General for 2006. The progress report covering the period to end-June 2006 noted that, in general, services had taken appropriate measures to address the important but not fundamental matters raised in the previous year. The final report for 2006, adopted on 20 March 2007, confirmed this view and also noted the significant progress made in the two DGs (AIDCO and EAC) whose validation had been suspended in 2005. Due to the necessarily long lead time required to make the appropriate changes to their local IT systems, the Accounting Officer was not in a position to validate these systems for the financial year 2006 but both systems are well placed to be validated during 2007. With regard to DG RELEX, the ABAC-Delegations IT project, which should rectify the problems identified in 2005, went live in 2007.

5. IT DEVELOPMENTS FOR THE GENERAL BUDGET

The IT development plan aims to provide the functionalities required to improve financial accounting and controls and to have a better integration of the various modules.

ABAC upgrades

The ABAC modules were progressively improved through the releases in June and November 2006 and then in January and March 2007. The June release was dedicated to the introduction of two modules in the ABAC WF Java version: the commitments and the inbox functionality. In the November release a new facility for the tracking of audits on legal entities was made available.

A specific release at the beginning of 2007 was dedicated to the "go live" of the delegations project, replacing the Relex local systems. The development of this module consumed a great deal of the resources during the reporting period. The March 2007 release focused on the go live of the new Asset modules for the delegations together with the integration of these modules with the Invoice module.

During mid-2006 an upgrade of the SAP system (version 5.0) was implemented. This upgrade was complex and gave rise to considerable work on the year-end procedure since a large number of programmes in that domain were running for the first time in the EC environment. This upgrade was important for ECFIN Activities, so that the accounts are fully compliant with international standards, and for the planned upgrade to SAP-BCS.

BCS (Budget Control System)

The new version of the SAP FM module, BCS, will be used to replace the version currently used (i.e. FBS) for the 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.

During 2006 BCS was split into two projects, phase I dedicated to replacing the SAP module currently used for the central funds management by the new BCS version, and phase II aimed at the migration to BCS of "local lines", the local budget management functionalities that are currently performed in ABAC workflow and not recorded in SAP.

In phase I, BCS has been configured to support the core EU functionalities and has been successfully implemented for the PHEA agency's accounts. Given the need to ensure adequate integration between BCS and ABAC workflow, the implementation for the General Budget has been postponed from April 2007 to October 2007. There are technical obstacles to a migration during the year change (i.e. beginning of 2008). Appropriate tools will be developed to facilitate the migration to BCS, and the local system users will be informed in good time of any changes in the information to be communicated via ABAC workflow.

The accounts of the European Development Fund (see section 7 below) will be on SAP-BCS from the 2008 year.

The planning of the second phase of the BCS project started in 2006, and is ongoing. Given the high potential impact of the local budget management functionalities on the ABAC architecture, a careful analysis of all the relevant issues is required before a realistic action plan can be issued, and a deadline for implementation proposed.

ABAC Assets II (termed SAM)

DG BUDG is currently assessing the possibility of fully integrating a Supply and Asset Management module into the corporate ABAC system, replacing ABAC-Assets, which runs on the separate Syslog system. This work is progressing, with one service, OIB, acting as a test environment to see whether such a solution would be desirable, feasible and cost-effective. An initial "demo" of the Supply and Asset Management module was presented to DG BUDG and OIB on 13 March 2007 resulting in a decision to proceed to the next stage, a full Proof of Concept analysis. Should a "go for deployment" decision be reached later in the year, then the needs of all potential users will have to be integrated into the new system. An initial launch limited to OIB is planned during 2008.

ABAC Assets I and ABAC Contracts

The Commission is continuing with maintenance and minor improvements for ABAC Assets I, until conclusions on the ABAC Assets II project are available, and for ABAC Contracts, until DG JLS's experience with the SAP grantor module provides a basis for a longer-term development strategy.

Single Data Warehouse

Developments on this project began in June 2006 using an approach based on phases for each business area. The first two areas to be analysed were Budgetary Execution (Appropriations – Commitments – Payments – SAP/FM) and the corresponding General Accounting aspects (Invoices – SAP/FI).

As a result of progress made by the end of 2006, the Single Data Warehouse was able to provide DGs and services with a first version of reports which could facilitate the preparation of their respective year-end cut-off data. The Single Data Warehouse was also used to prepare the annual budgetary reporting included in the 2006 accounts, and to prepare the individual budgetary reporting annexed to the Annual Activity Reports of each DG and Service within the Commission.

It is intended that the Single Data Warehouse will be opened to all DGs in June 2007. Additional functionalities and improvements will gradually be added in order to reach full functionality by the end of 2008. In the meantime, the existing Data Warehouse infrastructure will have to be maintained.

IT development processes

IT development processes are being improved through the adoption of data modelling techniques, and the constitution of a data dictionary. This project aims to ensure that present and future developments are fully documented, the software rendered as efficient as possible, and the implications for archiving data properly understood. The business area of income was selected for the first phase of this work, which had made good progress by 31 March 2007. Annex II to this report presents the progress made on security of access to the system, and on ensuring the coherence of the data held in the ABAC system.

6. ABAC DELEGATIONS

DG Budget, DG RELEX and DG DIGIT collaborated during 2006 to incorporate, as from 2007, the delegations' imprest accounts transactions into ABAC. The existing DG Relex Delegations local system could not be validated as it was not accrual compliant.

The ABAC modules have been adapted in order to be web-based and to be able to manage local payments and small expenditures via imprest accounts in the delegations.

ABAC-Assets has also been adapted and web-based in order to permit the RELEX delegations and the representation offices of DG COMM to manage and book their fixed assets in the central system. ABAC Workflow was opened for all delegations on 8 January 2007 and ABAC Assets on 26 March 2007. Training has been given on those modules to key financial staff from each delegation.

With these achievements, one of the main remaining issues is being addressed, namely that the large number of small services outside the Commission's headquarters (delegations and representation offices), to which financial responsibilities have been decentralised, are integrated into the central system and may thus comply with the accounting rules and methods.

7. EUROPEAN DEVELOPMENT FUND (EDF)

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

The accounting rules for the EDF were updated in 2005, and it is planned to replace the EDF's existing IT system, OLAS, by a combination of ABAC and DG AIDCO's local IT system for the general budget, CRIS. These two systems are currently being adapted to the specificities of the EDF.

The developments of the central ABAC component for EDF were substantially completed and tested by mid-2006. The implementation of the new IT system (ABAC-FED) is currently planned for January 2008. An extra year was needed for DG AIDCO to complete the developments necessary for CRIS to comply with the accounting rules for the general budget. There is a firm commitment to give this project the highest priority in 2007. The project plan has been updated, and particular attention is being paid to the quality of the migration process and data. Training the future users in the 46 ACP delegations remains a challenge.

It is important to underline that, although the new IT systems are still being developed, the EDF annual accounts for the 2005 and 2006 years were nevertheless drawn up in compliance with accrual-based accounting principles. The accounting information provided by the current IT accounting system (OLAS) has been adapted where necessary in order to present accrual-compliant data. The EDF Accounting Officer also made the necessary corrections to the cash-based accounting data, based on additional information supplied by the Authorising Officer.

8. IMPLEMENTATION OF ABAC BY THE OTHER INSTITUTIONS AND AGENCIES

Three executive agencies (IEEA, EACEA, PHEA) and three regulatory agencies (EMSA, Galileo, Frontex), as well as two committees (Economic and Social Committee, Committee of the Regions)[3] have been connected to the ABAC system during 2006. Nine further agencies will start using ABAC in 2007, and six regulatory agencies should be connected to ABAC in 2008.

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

As several regulatory agencies are still using a version of the Commission's Si2 system for their budgetary accounts, the Commission agreed to continue to support Si2 until it is able to integrate all its users into ABAC.

9. FUTURE DEVELOPMENTS

The modernisation project action plan has been updated for 2007 and extended to 2008. Major IT developments in the forthcoming months will focus on integration of the EDF accounts, implementation of the BCS module, completion of the Single Data Warehouse, development

[3] Are classed as Institutions in accordance with Article 1 of the Financial Regulation

of the enhanced Web-Income module, enhancing security and possible implementation of the Supply and Asset Management module (SAM) of SAP for the OIB.

Further IT developments will relate mainly to improving user-friendliness and the financial reporting functions, and to achieving the longer-term aim of enhanced interoperability and closer integration of local systems and providing further tools for user support and financial management. As regards the accounting framework, work will focus on defining the roles and responsibilities of the actors in the financial procedures, on improving the quality of accounting data and of management reports, and on monitoring compliance with validation criteria for local systems by all Authorising Officers by delegation.

10. CONCLUSION

The transition to a new accounting system in the European Commission has continued to meet the statutory deadlines set for the preparation of annual accounts on an accrual basis which comply in all material respects with internationally accepted accounting standards. The Commission's external auditors and discharge authorities have been very largely satisfied with the progress made.

The project cannot rest on these laurels. The accounting processes must continue to be improved and developed further. The main challenges which remain are to:

fully embed into each DG and Service the procedures and controls necessary to ensure a consistently high quality of accounting data. To this end, each DG and Service should in particular ensure that the Accounting Correspondent is appropriately placed in the hierarchy so as to be able to influence the effectiveness of the financial circuits, and to obtain the information necessary for the annual accounts;

improve the recording and reporting of sums recovered by the Commission and the Member States;

complete the validation of the existing systems in AIDCO and EAC, and validate the new IT systems used by RELEX and planned by EAC and other DGs;

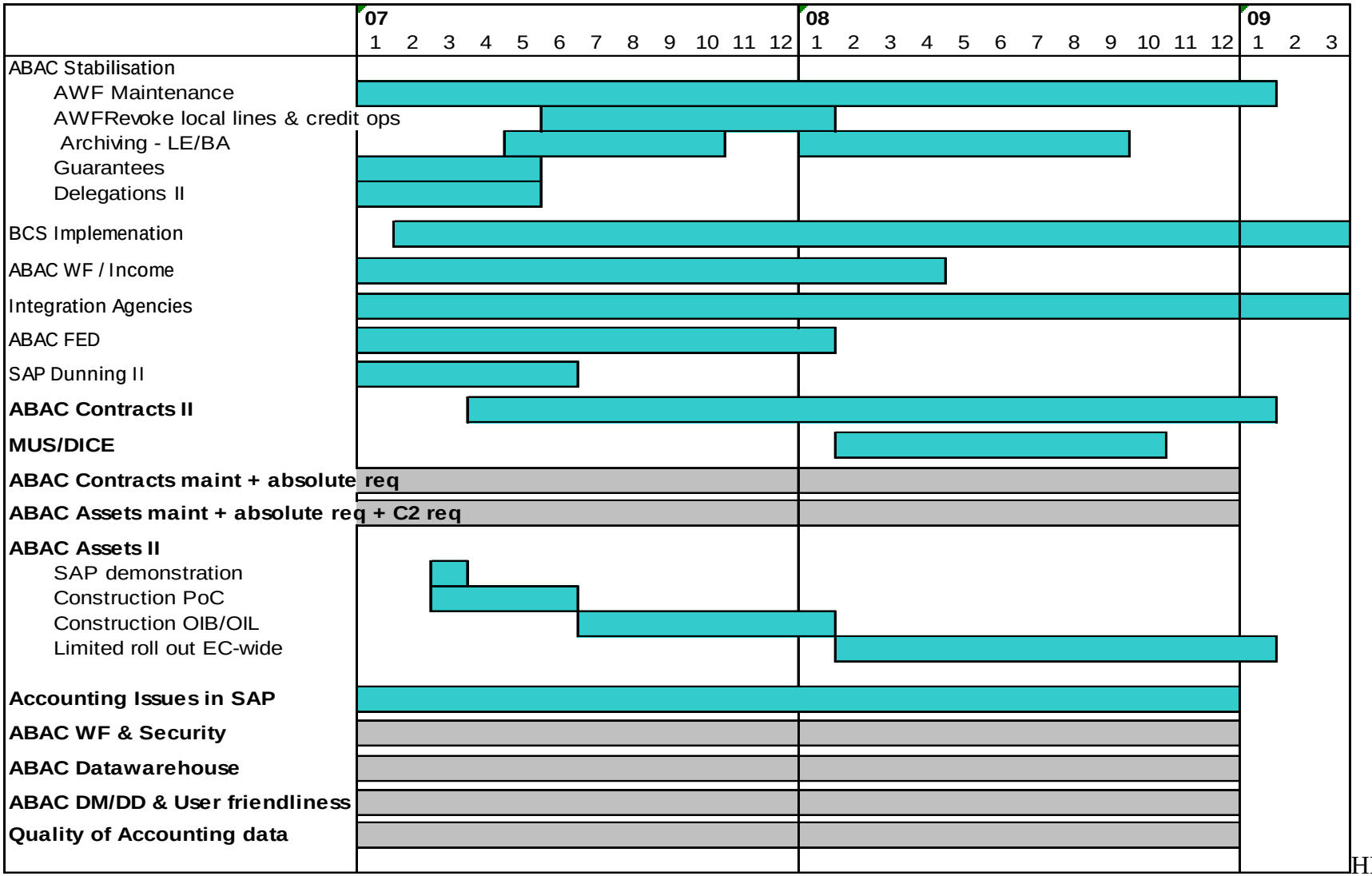
incorporate the EDF accounts into ABAC, and train staff in the 46 delegations concerned;

integrate a large number of external bodies, i.e. the agencies and committees, into ABAC, and service their corresponding needs in terms of training and support; and,

optimise the integration of the IT systems, and provide the means needed by users for managing and reporting on the financial resources placed under their responsibility.

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

ANNEX I: -LEVEL PLANNING



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ANNEX II: SYSTEM SECURITY AND SYNCHRONISATION

1. ABAC Accounting

In the course of 2006, two executive agencies, three regulatory agencies and two committees joined the ABAC system. The required developments and security set-up were completed in time to ensure segregation per Accountant (payment run, bank reconciliation, validation of transactions and maintenance of posting periods).

In July 2006, SAP was upgraded from release 4.7 to release 5.0. Following this upgrade, a complete revision of the existing access rights had to be made, thus guaranteeing that at least the same level of security is implemented under release 5.0. This high-priority revision was completed successfully and the migration to 5.0 went smoothly.

Specific developments and security rules were created in the second half of 2006 to enable the DGs' accounting experts to manage the end-of-year closure of their accounts. All Directorates registered their cut-off data for the first time in early 2007 for the 2006 exercise.

The revision of accesses in the ABAC Accounting System (SAP) for DG BUDG started in 2005. This revision progressed in 2006 but still requires finalisation in 2007. The top priority, namely the revision of the access rights of the IT experts, was successfully achieved in February 2006.

2. ABAC Workflow

Work started on recasting the security engine in ABAC Workflow and progress was made on several topics, such as the review of the technical users, the deputising mechanism and audit tracking.

Priority was given to the security set-up for the Delegations in the context of their integration into ABAC Workflow. A new module for the imprest account holders was developed and additional developments were also carried out in order to guarantee full segregation of operations by the 100-plus Delegations. Considerable effort went into this project throughout 2006. The Delegations have been up and running in ABAC Workflow since January 2007.