



COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMUNICATION FROM THE COMMISSION**

**REPORT ON PROGRESS AT 30 JUNE 2004 OF 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<sup>1</sup>. Both the Council and the European Parliament were informed of this Communication.

The project on modernising the accounting system addressed three principal issues:

- compliance with internationally accepted accounting principles for the public sector, in particular regarding accrual accounting (the recording of accounting events when they occur, and not only when cash is received or paid, or at the year end only);
- integration of the financial and accounting systems held on different informatics platforms;
- improving in the meantime the functioning of the present system SINCOM2, in particular concerning security and consistency between data from different sources.

In order to comply with the new Financial Regulation which entered into force on 1 January 2003<sup>2</sup>, accrual accounting should be in place by 2005, and a timetable of the actions required to meet this objective was annexed to the Communication. Full integration of all accounting systems was expected to cover a longer period.

The Commission has presented half-yearly reports<sup>3</sup> on the progress made on the modernisation project since 2002. DG Budget established information notes on the progress made in the intervening quarters. The present report summarises the progress made at 30 June 2004. As was the case for the preceding reports, it will be communicated to the relevant committees of the Discharge authorities, and to the Court of Auditors. [*An oral presentation was made to the Budgetary Control Committee on .....2004*].

## 2. PROJECT IMPLEMENTATION IN THE FIRST HALF OF 2004

The project continues to be implemented largely in accordance with the timetable in section 111.3 of the Communication of 17 December 2002, and with the more detailed project plan proposed on 8 July 2003. Annex 1 presents a detailed comparison between the timetable of 17 December 2002 and the actual implementation. Annex 2 presents an update of the milestone plan adopted in July 2003.

In essence, the accounting rules and chart of accounts have been completed, the accounting manual is in its final drafts; the IT functionalities to support the accounting processes are being developed, and all Commission services have launched the tasks necessary to prepare for the introduction of accrual accounting.

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

<sup>2</sup> Articles 133, 134 and 181.2, last sub-paragraph, of Regulation (EC, Euratom) N° 1605/2002 of 25.06.2002

<sup>3</sup> to 30 June 2003 (SEC(2003)790) and to 31 December 2003 (SEC(2004)118)

Subject to the testing of the IT functionalities once their development is completed, the new central IT system, termed 'ABAC', is expected to be ready to undertake the transition to accrual accounting in 2005.

The main issues arising are presented below.

### **3. ACCOUNTING ISSUES**

#### **3.1. Accounting rules**

Its opinions on the last of the fifteen sets of accounting rules applicable to the Community's accounts were adopted by the accounting standards committee at its meeting of 26 April 2004. Annex 3 presents a summary description of each rule.

On 8 June 2004, the Accounting Officer formally consulted the accounting officers of the other institutions and the agencies on these rules, and, once replies have been received, will adopt them under his sole responsibility, pursuant to article 133 of the Financial Regulation, in the third quarter of 2004.

The harmonised chart of accounts, required by article 133 of the Financial Regulation, has been drafted. The draft accounting manual based on the accounting rules and chart of accounts was largely completed by end-June 2004. It is expected to be finalised early in the last quarter of 2004 after inter-service consultations. A practical means of evaluating certain year-end provisions, such as for claims not yet received, must now be determined.

#### **3.2. Accounting processes**

All the accounting processes required for the modernised accounting system have been defined in functional blueprints, following the completion of an inventory of all present accounting processes and the identification of the accounting events to be recorded when they occur. These blueprints describe the processes to be introduced by all services, and the information to be captured within the IT systems. These blueprints were finalised in March 2004. These blueprints are susceptible to refinement in the light of experience.

The financial reports which the new system will be required to produce have been identified.

#### **3.3. Control environment**

The modernised accounting system will depend on the accurate and complete introduction of data by the many users of the central IT system (some 5000 at present). The screens being developed for users will progressively provide assistance aimed at minimising the risk of error, but the quality of the data introduced will depend on the control environment put into place by each Authorising Officer by Delegation. Guidance in this matter, which is also relevant for local IT systems, has been drafted in a document entitled 'Accounting objectives and control framework', which presents in particular the risks associated with each category of transactions, and the controls proposed to counter these risks. This document was finalised in March 2004.

The criteria for the validation of authorising officers' financial systems will be finalised in July 2004. A detailed questionnaire permitting a readiness assessment by each service regarding the respect of these criteria is being prepared.

#### **4. USERS' REQUIREMENTS**

The final report summarising user requirements was adopted on 30 September 2003, after being validated formally with each service.

DG Budget maintains its ambition that ABAC will meet as many of these requirements as possible, notably for improved information for financial managers, and hence to support the reform of financial management. Some needs not formally required under the new Financial Regulation will not be met by 2005 but will be included in subsequent development phases.

The Commission's Joint Research Centre is assisting in the development of multi-annual information on the programmes, projects and contracts.

#### **5. INTEGRATION OF THE ACCOUNTING SYSTEMS**

The most challenging component of the project is to integrate the existing financial management and accounting systems, to develop the systems so as to provide accrual accounting, and to provide users with user-friendly screens which will help ensure a high quality of the data captured. The present situation is summarised below.

##### **5.1. IT architecture for the General Budget**

The new system, termed 'ABAC', will comprise workflows for payment claims (ABAC-invoices), for contracts and related commitments (ABAC-contracts) and for fixed assets (ABAC-assets). A number of other services will continue to supply accounting information from their local IT systems

The main issues are:

- Testing the new system. Testing of the individual components of ABAC is planned between mid-July 2004 until end September, as each is developed. The working of the system as a whole will then be tested by multi-disciplinary teams, work planned for October 2004.
- Transition to the new system. All the issues to be addressed regarding the opening of the 2005 year in the new system are being identified, so that a detailed plan can be established in good time.
- Links to local systems. The technical specifications for these links were made available by 31 May 2004, as planned. They are susceptible to refinement in the light of experience. Those for version 1 of ABAC-Contract were released on 1 April, and will be enhanced by subsequent versions. The services concerned have scheduled the work required to meet these specifications, but consider that there is a risk that they will not be able to complete all the

necessary developments in good time for them to be tested and released by the year-end.

- External delegations and press offices. The large number of small services outside the Commission's headquarters, to which financial responsibilities have been deconcentrated, will be progressively integrated into the central system as from 2005. The expenditure concerned is immaterial, consisting of imprest accounts and office equipment.

## **5.2. Loans and borrowings**

As regards operations outside the Commission's budget, the loans and borrowings activities, at present recorded on Globus, a system owned by DG ECFIN, will be integrated into the central accounts as from July 2005, when DG ECFIN expects to migrate from its present system to an SAP banking module, CFM.

This decision was taken after a feasibility study and after a comparison of different solutions which would offer DG ECFIN the services required for the management of its financial activities, and permit an integration of the accounting for these activities with the accounts of the general budget.

## **5.3. European Development Fund**

As a separate exercise, the accounts of the European Development Fund, which are at present separate from the accounts of the General Budget, must also be modernised.

In collaboration with AIDCO, the workflows for the management of EDF projects will be transferred from the present EDF accounting system (OLAS) to AIDCO's local system (CRIS), and the EDF accounts will be kept on an accrual basis in ABAC. The advantages of this solution are that it prepares the way for any integration of the EDF into the General Budget, and it allows EDF payments to be executed through the functions developed for the General Budget.

Whilst EDF payments will be made through the general budget's accounting system by September 2004, the IT developments necessary for full accrual accounting will not be implemented until 2005, after ABAC and the parallel developments of CRIS are completed. The accounts of the EDF for the 2005 year will be prepared from information held in OLAS, as adapted to provide a basis for accrual accounts. As from 2006, the new ABAC-EDF system should be fully compliant with the requirements of accrual accounting.

## **6. IMPLEMENTATION OF THE MODERNISED ACCOUNTS IN THE COMMISSION'S SERVICES**

### **6.1. Preparation of opening balances for the 2005 financial year**

On the basis of high-level plans submitted by all services, DG Budget allocated 4,5 mio € to allow the recruitment of temporary staff for the inventories of information necessary for the opening of the 2005 year's accounts. The transfer of these funds to the policy areas concerned was approved by Parliament on 3 May. The staff commenced work between mid-June and mid-July.

Detailed plans for the implementation of each task were submitted to DG Budget by end-April, and reports on progress made were submitted at end-June by all DGs and services. From an analysis of this information, the situation at the end of June 2004 was as follows:

- (1) Prepare a complete inventory of all uncleared prefinancing and related guarantees, which requires the examination of all open commitments;

29% of the 45 000 open commitments have been examined, and 17% of the 23 000 with guarantees, excluding the structural funds which follow a specific procedure.

- (2) Assist the constitution of a file of all legal entities with which the Commission has contractual relationships (and thus complete administrative reform action 74);

Of the 214 000 bank accounts which may represent a legal entity, 67 000 have been identified as mandatory for linking by end-2004 with a legal entity on the basis of legal references and supporting documents. The remainder have been allocated a second priority, as they concern closed commitments, or beneficiaries of small amounts of payments. 15% of the mandatory files have been created, and 3% of the second priority files.

Each DG expects to complete the work necessary to establish the opening accounting balances by the year-end, but to achieve this objective, the rate of examination of files will have to be increased. Room for manoeuvre exists: temporary staff only arrived in mid- or end-June, so the DGs had therefore not yet reached their full production capacity. There remains some concern that the creation of the mandatory legal entity files will not be completed by the year end, with the consequent risk of delays to payments to certain beneficiaries in 2005. Furthermore, the concentration of the activities of almost all DGs in the second half of 2004 increases the risk that DG Budget will be unable to process in good time the consequent volume of files submitted for validation each month.

DG Budget will address these risks, will work closely with each service to accompany these tasks, and will provide training in parallel with the timetables set out in these notes.

## **6.2. Development of local IT systems and their links to ABAC**

The essential of the IT developments required of the services other than DG Budget has been scheduled over the second half of 2004. According to the self-assessments received by end-June 2004, all expect to complete these developments by the end of 2004. However, given the limited time available, several expect to complete development at a date which leaves no margin for unforeseen circumstances. There is a consequent risk of delays to commitments and payments at the beginning of 2005.

## **6.3. Validation of the local systems**

In accordance with article 61 of the Financial Regulation, the Accounting Officer must validate local systems which supply or justify accounting information. A high-level assessment of service's system will be completed by end-2004, and only links between the central system and validated local systems will be accepted in 2005. A more in-depth

examination of each system will commence in 2005, once they have begun operating in the new environment of ABAC.

#### **6.4. Implementation of accrual accounting in the other institutions and agencies**

The Commission invited each institution and agency to undertake a 'readiness assessment' for their application of the new accounting rules and accrual-based accounts. From an analysis of the replies, and information exchanged during meetings, it appears that each is taking the necessary steps.

Several agencies and smaller institutions use a version of the Commission's Si2 system for their budgetary accounts. By letter of its Secretary-General of 22 June 2004, the Commission agreed to continue to make Si2 available during 2005, and to make all modules of ABAC available to those entities which wished to use them, together with the technical specifications necessary to link them to their own systems.

The Commission has also suggested that the Agencies develop a shared IT platform on which to run their copies of ABAC. This solution, aligned on a recommendation by Parliament, would be cost-efficient, while preserving the independence of each Agency.

### **7. TRAINING**

A programme of training has been undertaken. During the first half of 2004, the courses concerned accounting matters, and the users of the functionalities introduced during that period (the central invoice register, the recording of legal entities, prefinancing, contracts). In addition to the 840 persons trained for the legal entities' exercise, a self-learning facility has been made available on the PCs of all users.

A programme of training of the future users of the ABAC system was adopted at the end of June 2004. With the assistance of external experts, this will be implemented between October and February 2005, and be aimed firstly at a core of users in each service, and then extended in 2005 to all users of ABAC. The users' training modules are designed to become a guide to users, and to form the basis of a continuous training programme for future users. Each service with a local system is expected to undertake its own training programme for users of that system.

### **8. CONCLUSION**

The modernisation project has very largely met the objectives set for June 2004. The project aims to continue to respect the time-table set, so far as concerns meeting the formal requirements of the new Financial Regulation in 2005. The Commission still considers that this ambitious objective is feasible, though remaining subject to the risks faced by all large-scale IT developments.

All services are investing heavily to prepare the information necessary for the opening of accrual-based accounts, and to make the necessary adaptations to their local systems. There is a significant risk that information will not be completely prepared by 1 January 2005, that some local IT systems will not be ready to be linked to ABAC by that date, or that one or more of the ABAC modules will not be ready to process the information supplied. Some disruption to day-to-day financial operations must be expected at the end



of 2004, as staff prepare for the transition, and at beginning of 2005 as staff familiarises itself with the new system, and completes the input of the information required by the system. The Commission is addressing these risks by ensuring that priority is given to the gathering of the most essential information, and by identifying the means of ensuring that the 2005 accounts will contain all the accounting records required for accrual accounts even if these risks materialise.

The extra-budgetary activities of DG ECFIN will be integrated with the central accounting system of the Commission by July 2005. During the first six months of 2005 the accounting of the extra-budgetary activity will, as in the past, be accrual based. The European Development Fund will use ABAC for its payment process in 2005, and for its accounting processes in 2006.

The project is still expected to provide each service's management in the longer term with more reliable and complete information on the assets and liabilities for which it is responsible, on its financial relationships with each supplier, and, in the medium term, on the financial implementation of multi-annual projects and commitments.

## ANNEX 1: ABAC PROGRAMME STATUS AT 30 JUNE 2004

(Referenced to the Timetable in section III.3 of the Commission's communication COM(2002)755 final)

### 1. Accounting Framework Timetable

#### 1.1. Devising the new accounting framework

##### 1.1.1. Provision by the Accountant of an initial analysis of accounting requirements based on the Commission's decision

Dead-line 1<sup>st</sup> quarter, completed second quarter

Initial analysis of accounting requirement based on the Commission's decision was drawn up by June 2003 and used as a basis to develop the accounting rules and to determine the IT development issues.

##### 1.1.2. Establishing the accounting standards to be applied by the European Communities

Dead-line: draft 2<sup>nd</sup> quarter, priority standards 4<sup>th</sup> quarter, other standards 6<sup>th</sup> quarter. Timetable met.

The accounting officers of the other institutions and the agencies were consulted on all eighteen sets of accounting rules applicable to the Community's accounts on 8 June 2004.

##### 1.1.3. Setting up an accounting standards committee

Dead-line: 1<sup>st</sup> quarter: timetable met.

An Accounting Standards Committee was set up in March 2003 and has met monthly to discuss, and give its advice and judgement on the Accounting rules that have been developed. A final meeting is planned on 16 July to examine comments on the proposed rules.

##### 1.1.4. Adapting the chart of accounts

Dead-line: draft 2<sup>nd</sup> quarter, final 4<sup>th</sup> quarter: dead-line met

Based on the analysis of events giving rise (1.1.5), accrual accounting and budgetary impacts have been identified per business event. The inventory of accrual accounting entries and procedures has been carried out. Based on this inventory, currently being validated, and on the accounting rules (1.1.2), the draft Chart of Accounts has been created.

##### 1.1.5. Defining the event giving rise

Dead-lines: draft 2<sup>nd</sup> quarter, final 4<sup>th</sup> quarter: deadlines met.

An inventory of financial processes was carried out in all services.

All events giving rise have been described in flows and validated by the different services.

- 1.1.6. Extending the scope of consolidation  
Dead-line 9<sup>th</sup> quarter: work started and in progress.  
The scope of consolidation will be extended for the 2005 accounts. An IPSAS compliant consolidation scope is under development.  
A significant extension of the consolidation scope is already foreseen. The following steps are planned to carry out the new consolidation:
- development of the consolidation functional requirements,
  - consolidation manual,
  - consolidation reporting pack, and
  - the selection and implementation of a consolidation tool.
- 1.1.7. Financial statements  
Dead-line 9<sup>th</sup> quarter: work started and well advanced  
Financial statements have been defined as part of the accounting rules (1.1.2), and the chart of accounts drawn up accordingly. The accounting rules relating to the financial statements has been prepared.

## **1.2. Integrating accounting data**

- 1.2.1. Fixing the opening balances  
Dead-lines: provisional 4<sup>th</sup> quarter, definitive 8<sup>th</sup> quarter: on schedule  
The analysis of the impact of accrual accounting on opening balances is largely completed. Procedures are being put in place to collect the opening balances for pre-financing, guarantees and invoices received and not yet paid.
- 1.2.2. Defining the “object codes” and linking the budget accounts and general accounts  
Dead-lines: plan 4<sup>th</sup> quarter, linking 7<sup>th</sup> quarter: on schedule  
Based on the inventory of financial processes (1.1.5) and the chart of accounts, object codes have been defined and linked to budget and general accounts.
- 1.2.3. Integrating contingent assets and liabilities (off-balance sheet items)  
Deadlines: inventory 4<sup>th</sup> quarter, guarantees 5<sup>th</sup> quarter, integration 9<sup>th</sup> quarter.  
On schedule  
The Business Event flows for contingent assets and liabilities have been organised into functional blueprints.

Each Blueprint describes the entire activities workflow capturing the required accrual accounting information.

The necessary data for Accrual and Budgetary accounting as well as user data requirements have been organised into a Data Model.

The Data Process Model, in the blueprints, combines the Data Model and the activities workflow.

Those Blueprints will be further fine tuned up to the implementation phase. The strategies for inventories and for guarantees were adopted during the 4<sup>th</sup> quarter

1.2.4. Management and entry in the accounts of prefinancing, interim payments and final payments

Dead-line 5<sup>th</sup> quarter: strategy adopted in 4<sup>th</sup> quarter, the identification of up to 60 000 prefinancing balances to be undertaken in 2004

Pre-financings for all open commitments and balances will be analysed and recorded in the accounts during 2004. The related strategy has been distributed to all services in December 2003.

1.2.5. Creating a link between the Central Invoice Register and the accounts

Dead-line: use of CIR mandatory 4<sup>th</sup> quarter, link to general accounting 7<sup>th</sup> quarter. One quarter delay

Invoices will be recorded in CIR and linked to the general accounts during 2004. During the 5<sup>th</sup> quarter, CIR was deployed in almost all services lacking an equivalent IT tool to support the process. The links are scheduled for the 7<sup>th</sup> quarter, once CIR is upgraded to become ABAC-invoices and to provide enriched information. The related strategy was communicated to all services in December 2003.

1.2.6. Receivables and files of clients and suppliers

Dead-line 5<sup>th</sup> quarter: on schedule regarding the creation of the files

All current Third Party files will be collected, centralised, completed, cleansed and validated during the year 2004 to finally be migrated into the future system at the end of 2004. The related strategy was distributed to all DGs at end- 2003.

**1.3. Organisation of internal control of accounting data**

1.3.1. Expanding internal control in each DG to include accounting aspects draft definitive

Dead-lines: draft 4<sup>th</sup> quarter, definitive 8<sup>th</sup> quarter: on schedule

The Control Framework has been developed.

1.3.2. Supporting evidence for balance sheet balances through inventories

Deadline 7<sup>th</sup> quarter: on schedule

A complete and accurate inventory of fixed assets will be carried out during 2004.

1.3.3. Certification of local systems

Deadline: 9<sup>th</sup> quarter: on schedule

Local systems will be the subject of a high-level assessment at the end of 2004, and in-depth examination as from when they are linked to ABAC in 2005.

## **1.4. Training and awareness raising among those concerned**

### **1.4.1. Training**

Implementation 3rd to 6<sup>th</sup> quarters: rescheduled to better fit the needs of other services

Information sessions on the project commenced in the 4<sup>th</sup> quarter.

Based on the training strategy developed and communicated to the DGs in December, the training activities throughout 2004 have been planned, and their implementation aligned to the release of IT functionalities. The training modules for users of ABAC are currently being prepared.

### **1.4.2. Recruitment**

Dead-line 3<sup>rd</sup> quarter: deadline met for 2003 posts.

17 additional resources under the 2004 budget have been added to the ABAC project in 2004.

### **1.4.3. Network accounting correspondent**

Dead-line 1<sup>st</sup> quarter: deadline met

Accounting correspondents have been identified, meetings have been organised, and regular information session and discussion are already planned as part of the communication strategy and plan.

## **2. Improvement of current system architecture**

### **2.1. Reconciliation of Si2 and R/3 data for 2002**

Dead-line 2<sup>nd</sup> quarter: met

Reconciliation of Si2 and R/3 data for 2002 has been completed and validated early in 2003.

### **2.2. Development of a written security policy**

Deadline 2<sup>nd</sup> quarter

A security policy for SinCOM 2 has been written during the second quarter of 2003 and adopted in July 2003.

### **2.3. Comparison of security management principles**

Dead-line 3<sup>rd</sup> quarter: met

The current security policy has been compared to relevant international standards in 2003 and deemed appropriate. It will be reviewed in the light of experience in 2004.

### **2.4. Fixing of rules governing the incorporation of security elements**

Dead-line 3<sup>rd</sup> quarter: met

Rules governing the incorporation of the security elements in the new functionalities have been designed in the third quarter of 2003.

- 2.5. Development of computerised tools to facilitate the management and audit of access rights  
Dead-line 3<sup>rd</sup> quarter: partially met  
Access rights have been audited but the relevant computer tool is not yet in place as the version developed by consultants was not accepted. A computer tool to facilitate the management and audit of access rights will be developed for ABAC during 2004.
- 2.6. Development and implementation of a web based version of Si2  
Dead-line 4<sup>th</sup> quarter: not met  
Part of the web based version of Si2 was developed in 2003 (the inbox) but not implemented. The development will be continued and implemented in 2004 as the ABAC front-end application for the DGs.
- 2.7. Elimination of redundant data  
Dead-line 4<sup>th</sup> quarter: partially met, will be completely met only when accounts are integrated in the 8<sup>th</sup> quarter.  
Data management activities are included in the overall IT planning, and include data cleansing phases (elimination of redundant data, correction of errors, completion of missing data,...).

### **3. Development of the new system architecture**

- 3.1. Feasibility study of the new architecture – and in particular an examination of how sectorial systems can be integrated  
Dead-line 2<sup>nd</sup> quarter: met  
A feasibility study has been completed in May 2003, including the examination of the integration of sectorial systems.
- 3.2. Detailed road-map for implementation of the next computerised system  
Dead-line 2<sup>nd</sup> quarter: met  
A detailed road map for the implementation of the new system was developed in May 2003 and is maintained on a daily basis. It is structured around the key milestones identified during the feasibility study. This road map has been further developed into an implementation plan.
- 3.3. Analysis of users' management needs  
Dead-line 3<sup>rd</sup> quarter: met  
Users' management needs have been recorded through workshops, analysed, and categorised, and are mapped against planned system functionalities to ensure proper alignment of the system future functionalities on the users needs. The final report was issued on 30 September 2003.

- 3.4. Design of proposed solutions – the progressive functional and technical definition of the system  
Dead-line 4<sup>th</sup> quarter: largely met.  
The design of the proposed solution will be performed in two phases: the production, and validation, of first functional, then technical blueprints.
- Functional blueprints consolidate the accounting rules, operational activities and data model and, as such, define the functional foundation of the future system. These were finalised in December 2003 and issued for comments by all services.
- The technical blueprints built upon the functional blueprints to translate in technical terms and actual system functionalities the functional specifications. These were ready in March 2004, but are susceptible to refinement in the light of experience.
- 3.5. Migration towards SAP Enterprise  
Dead-line 7<sup>th</sup> quarter: completed by 3<sup>rd</sup> quarter.  
Some problems occurred, and were resolved in collaboration with SAP
- 3.6. User workshops and feedback  
Dead-line 4<sup>th</sup> quarter: met, though feedback will be continuous throughout the project.  
Workshops with users of all DGs have been conducted in 2003. The collected information, users' requirements, has been analysed and categorised and has been incorporated in the functional blueprints. Users' feedback is collected on an ongoing basis during the whole implementation, and will be collected during testing phases.
- 3.7. Progressive implementation of new functionality – once additional functionality is available to meet users' needs, it would be implemented rather than wait for the deadline of January 2005  
Dead-line 6<sup>th</sup> quarter: on schedule for relevant functionalities (invoices, contracts, prefinancing)  
The system implementation has been phased to allow a progressive implementation of available functionalities.
- 3.8. New functionalities adapted to take account of tests  
Dead-line 7<sup>th</sup> quarter: on schedule  
The testing phase, that will take place in late 2004, is part of the overall plan and will guarantee that functionalities are meeting both accounting principles and users' requirements.
- 3.9. Training for key users  
Dead-line 8<sup>th</sup> quarter: scheduled.  
The training plan incorporates Key Users training activities to ensure Key Users

receive the adequate level of formation.

3.10. Release of new system

Dead-line 8<sup>th</sup> quarter: expected to be met.

Preparation and planning for bespoke developments have been completed for ABAC-Workflow (Invoice), ABAC-Contracts and ABAC-Assets. The rollout of ABAC-Workflow (invoice) started in early January. Other ABAC modules will be rolled-out during 2004, accordingly to the project plan.



## ANNEX 2: INTEGRATED PROGRAMME PLAN 30 JUNE 2004

### List of milestones

			At 31/12/03	At 31/12/03	At 30/06/04	At 30/06/04	At 30/06/04
No	Description	Work-stream	Start date	End date	Start date	End date	% of Completion
1	Project infrastructure is set-up	Project Man.	February	30/06/03	February	30/06/03	Done
2	Accounting Standards defined	Accounting	February	31/08/03	February	31/08/03	Done
3	Business events analysed	Accounting	May	31/01/04	May	31/01/04	Done
4	Accounting objectives and control framework updated and issued	Accounting	01/09/03	31/10/03	01/09/03	31/10/03	Done
5	Draft architecture strategy is defined	IT	February	15/07/03	February	15/07/03	Done
6	Draft user requirements documented	User Req.	March	30/06/03	March	30/06/03	Done
7	Chart of accounts updated and object code mapping done, functionalities defined	Accounting	15/07/03	31/01/04	15/07/03	31/01/04	Done

			At 31/12/03	At 31/12/03	At 30/06/04	At 30/06/04	At 30/06/04
No	Description	Work-stream	Start date	End date	Start date	End date	% of Completion
8	Functional Blueprint, Data/ process model prepared and validated	IT/Accounting	15/07/03	15/01/04	15/07/03	15/01/04	Done
9a	Functional architecture proof of concept built and tested	IT	01/07/03	15/10/03	01/07/03	15/10/03	Done
9b	Prototypes completed	IT	16//10/03	31/01/04	16//10/03	31/01/04	Done
10	Local systems and SI2 adaptation capacity analysed	IT/DG	15/09/03	15/12/03	15/09/03	15/12/03	Done
11	Consolidated entities identified and informed	Accounting	01/10/03	31/10/03	01/10/03	31/10/03	Done
12	High-level DG Budget processes defined	Accounting	01/10/03	14/11/03	01/10/03	14/11/03	Done
13	Data / process gap addressed	IT/Accounting	15/09/03	31/01/04	15/09/03	31/01/04	Done
14	User requirements finalised	User Req.	09/07/03	30/09/03	09/07/03	30/09/03	Done
15	Priority gaps are addressed, obsolete systems identified	DG's	15/07/03	15/01/04	15/07/03	15/01/04	Done

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			At 31/12/03	At 31/12/03	At 30/06/04	At 30/06/04	At 30/06/04
No	Description	Work-stream	Start date	End date	Start date	End date	% of Completion
16	Accounting Standards, chart of accounts and manual final draft issued	Accounting	16/10/03	30/06/04	16/10/03	30/06/04	
16a	Accounting Rules	Accounting	16/10/03	30/06/04	16/10/03	30/06/04	Done
16b	CoA	Accounting	16/10/03	30/06/04	16/10/03	30/06/04	Done
16c	Accounting Manual	Accounting	15/11/03	30/06/04	15/11/03	30/06/04	90%
17	Final 2005 IT architecture defined	IT	20/11/03	15/01/04	20/11/03	15/01/04	Done
18	Implementation plan prepared	IT	15/07/03	02/01/04	15/07/03	02/01/04	Done
19	Detail DG plans prepared	DG's	15/10/03	28/02/04	15/10/03	28/02/04	
19a	HL DG impact assessment and plans prepared	DG's	15/10/03	15/01/04	15/10/03	15/01/04	Done
19b	Detailed DG plans prepared	DG's	15/01/04	28/02/04	15/01/04	28/02/04	Done
20	Technical blueprint completed and prototype validated	IT	03/11/03	15/02/04	03/11/03	15/02/04	Done

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			At 31/12/03	At 31/12/03	At 30/06/04	At 30/06/04	At 30/06/04
No	Description	Work-stream	Start date	End date	Start date	End date	% of Completion
21	Integrated Central system validated	IT	01/02/04	31/05/04	01/02/04	31/10/04	In progress
22	Sectorial systems improved, interfaces completed and tested	DG's	15/01/04	31/12/04	15/01/04	31/12/04	In progress
22a	DG's Functional requirements finalised	Accounting/User Req.	15/01/04	15/02/04	15/01/04	15/02/04	Done
22b	Interfaces technical requirements ready	IT	01/03/04	31/05/04	01/03/04	31/05/04	Done
22c <sub>1</sub>	Local systems improved and tested	DG's	01/02/04	30/10/04	01/02/04	30/10/04	In progress
22c <sub>2</sub>	Interfaces developed and tested	DG's	01/04/04	31/12/04	01/04/04	31/12/04	In progress
23	Manual processes are defined and tested	DG's	15/01/04	29/09/04	15/01/04	29/09/04	In progress
24	DG Budget processes validated	Accounting	04/02/04	30/06/04	04/02/04	30/06/04	Done
25	Consolidation	Accounting	06/01/04	27/08/04	06/01/04	31/12/04	60%
26	Integration tests performed	IT	01/06/04	31/07/04	01/06/04	15/10/04	

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			At 31/12/03	At 31/12/03	At 30/06/04	At 30/06/04	At 30/06/04
No	Description	Work-stream	Start date	End date	Start date	End date	% of Completion
27	User acceptance tests made	IT	01/09/04	30/09/04	01/09/04	31/10/04	
28	Data migration prepared	IT	05/04/04	10/11/04	05/04/04	10/11/04	In progress
29	IT Systems realised	IT	01/02/04	31/08/04	01/02/04	15/09/04	In progress
30	User trainings completed	IT	01/10/04	30/11/04	01/10/04	30/11/04	
31	Accounting Standards, chart of accounts and manual finalised	Accounting	01/12/03	05/11/04	01/12/03	05/11/04	In progress
32	Trainings completed	Project man.	05/11/03	30/11/04	05/11/03	28.02.05	In progress
33	Closing instructions sent	Accounting	08/11/04	01/12/04	08/11/04	01/12/04	
34	DG's processes and systems signed off	Accounting	01/07/04	31/12/04	01/07/04	31/12/04	
34a	Local systems signed-off	Accounting	01/07/04	30/11/04	01/07/04	30/11/04	
34b	Interfaces signed-off	Accounting	30/09/04	31/12/04	30/09/04	31/12/04	
35	Final preparation completed	IT	01/10/04	31/12/04	01/10/04	31/12/04	
36	First part of the programme closed	Project Man.	28/12/04	07/01/05	28/12/04	07/01/05	

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### ANNEX 3 : ACCOUNTING FRAMEWORK: ACCOUNTING RULES

**Financial statements:** This standard follows the IPSAS 1 requirements, as adapted to the requirements of the Financial Regulation. For instance, the complete set of financial statements includes the following components:

- (a) Balance Sheet
- (b) Economic outturn
- (c) Statement of changes in Capital
- (d) Cash Flow Table
- (e) Accounting Principles, Rules and Methods and Notes to the Financial Statements and
- (f) Segment Reporting (included in the notes to the financial statements).

**Group accounting:** The scope of the consolidation is a significant issue that is addressed in this rule. This rule defines three major categories of entities that should be consolidated: controlled entities (meaning those over which the European Communities have an exclusive control), associate entities (those where the European Communities have a significant influence on the entity) and joint ventures (the European Communities have a joint control). For each category, the European Communities would have to adopt a specific accounting procedure: global consolidation, equity method or proportionate consolidation. The European Development Fund is excluded from the scope of consolidation, but will be disclosed in the notes to the accounts as funds managed by the Commission on behalf of the Member States and their ACP partners.

**Foreign currency conversion:** the European Communities have to deal with transactions that are denominated in a foreign currency. A transaction should be initially recorded by applying the exchange rate at the date of transaction. At each reporting date, the European Communities would have to update this valuation and calculate an exchange difference. Both realised and unrealised exchange gains or losses should be recognised in the statement of financial performance at the reporting date.

**Property, plant and equipment:** This rule sets the accounting requirements regarding the recognition and measurement of property, plant and equipment. It establishes that an item of property, plant and equipment should be recognised as an asset when it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and the cost or fair value of the asset to the entity can be measured reliably. Buildings, land, and hardware are considered as fixed assets.

The generating event for the recognition of an item of property, plant or equipment is the transfer of property, which is generally equivalent to the date of delivery. Regarding the measurement, the rule sets out the nature of the costs to be included in the purchase price and explains how to identify assets under construction.

Depreciation expense is recognized on a systematic basis over the asset's useful life i.e. pro- rata temporis, reflecting the pattern in which the asset's benefits are consumed by the European Communities.

In addition to the depreciation, specific events can have an impact on the value of the asset (effect of time, obsolescence, falling market value, etc ...). When an impairment indicator is activated, additional depreciation should be recognised. Thus, the value of property, plant and equipment is not an historical value but can vary as time goes by.

**Intangible assets:** Intangible assets follow almost the same rules as property, plant and equipment. Nevertheless, there is often more uncertainty about the valuation of intangible assets (for instance, when recognising a patent or when developing an own intangible asset such as computer software). This rule sets out the necessary requirements that intangible assets must fulfil to be considered as assets.

**Leases:** For accounting purposes, this rule divides leases into two types: finance leases and operating leases. Finance leases should be recognised as fixed assets, as this type of leasing substantially transfers all risks and rewards incident to ownership. Operating leases are considered as rents. This rule recalls that since finance leases are fixed assets, depreciation and when necessary impairment must be assessed and recorded.

**Inventories:** this rule explains that inventories are assets in the form of materials or supplies to be consumed in the production process or to be consumed or distributed in the rendering of services or held for sale or distribution in the ordinary course of operations, or in the process of production for sale or distribution. Consequently, the scope of inventories is not very broad and administrative supplies should not be recognised as inventories. This rule describes how to recognise and derecognise inventories and give illustrative examples. It should be mentioned that the LIFO ("Last In, First Out") method is not authorised by IPSAS. Finally, this rule includes also in appendix a compliance analysis of the inventories of the European Communities. This analysis includes the accounting requirements for the inventories of agricultural stocks.

**Receivables and revenues:** The transition to accrual accounting has significant consequences on the receivables generating events. First, the rule distinguishes between "exchange transactions" and "non-exchange transactions". "Exchange transactions" include the delivery of services and goods but also revenues from royalties or interests. "Non-exchange transactions" are specific to public sector bodies, as there is no transfer of property. Those kinds of revenues include traditional own resources, VAT, GNI, fines, etc...

The rule identifies for each category of event the generating event and the accounting consequences at the reporting date. It is necessary at each reporting date to estimate the recoverability of the European Communities' receivables. When there is a risk that the receivable may not be recovered, then a value reduction should be recognised.

**Pre-financing:** Pre-financing is intended to provide the beneficiary with a float. As a consequence, the rule states that a pre-financing is not an expense that should be recorded in the statement of financial performance, but should be recognised as an asset when the pre-financing is paid to the beneficiary. The pre-financing would subsequently be derecognised with the interim and final payments.

As a pre-financing is a receivable, the European Communities have at each reporting date to assess if this asset is recoverable or not. When there is a risk that it may not be recovered, a value reduction should be recognised in the accounts.

**Payables and expenses:** This rule details the accounting rules related to payables and expenses. First, it recalls that the generating event is the delivery of goods or the delivery of service. This position implies that at each reporting date, the European Communities would have to recognize an accrued charge for all goods/services delivered during the period but not yet recognised and a deferred charge for all goods/services recognised but not related to the period.

Moreover, the analysis of the European Communities' business events shows that some events need very specific treatment as they are "non-exchange transactions" (e.g. grants, EAGGF, Structural funds, etc...). Consequently, this standard gives detailed accounting requirement for the recognition and measurement of those events.

**Provisions, contingent assets and liabilities:** International Standards are very restrictive regarding provisions as there needs to be a clearly identifiable obligating event (a past event that leads to a present obligation). Although provisions are very restrictive, this rule establishes that the European Communities would have to disclose a large amount of information regarding contingent assets and liabilities. For example, contingent assets and liabilities include guarantees received or given. Provisions and contingent assets and liabilities should be updated at each reporting date. A detailed compliance analysis of existing provisions, contingent assets and liabilities is presented in the appendix.

**Basis of preparation:** this document recalls the basic concepts that have to be applied when applying IPSAS.

**Financial instruments:** this rule deals with the accounting requirements for transactions such as participations, swaps, futures, etc. It presents the various IFRS and IPSAS requirements applicable to the European Communities. The contentious issues which have delayed the adoption of IAS 39 by the Commission do not affect the Community's accounts.

**Cash and cash equivalents:** this rule gives illustrative examples of cash transactions to recognise during the year and at the reporting date. Those examples deal with cheques, deposits, money transfers and internal transfers.

**Employee benefits:** this rule details the scope of the employee benefits to be included in the provision; refers to the actuarial methodology to implement and the accounting schemes; and explains what is the generating event.

**Net result for the period, fundamental errors and changes in accounting policies:** this rule is useful to assess the work to be done regarding the opening balance. It explains when and how it would be possible for the European Communities to amend its accounts once published and approved by the relevant authority.

**Related party disclosure:** In order to improve transparency, this rule requires the disclosure of information about related parties (e.g. agencies) and key management personnel. For example, it requires that the remuneration of this personnel should be disclosed in the notes to the financial statements.