

European Commission: accrual accounting and IPSAS application



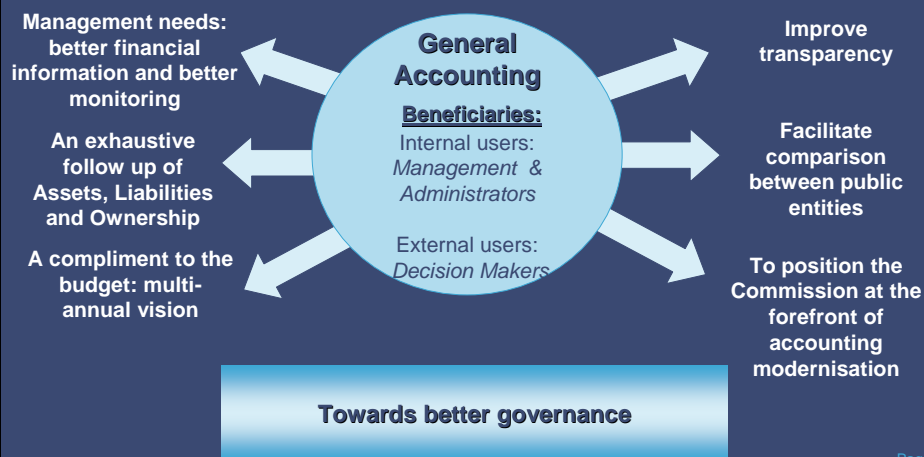
11 January 2011

Agenda

- Why accrual accounting?
- The accounting IT systems
- Accounting rules and framework
- Annual Accounts
- Challenges in applying IPSAS/accrual accounting

Why accrual accounting?

Internal needs and external expectations



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The Accounting IT systems

Budgetary execution

- Key user: Authorising Officer by (sub-)Delegation
- Central Front Office system (+10 0000 users) and
- Decentral systems (e.g. payroll, sectorial regulation)
- Technical: [in-house developments](#)

Budgetary accounting / Accrual accounting

- Key user: Accountants (Commission, Agencies, other Institutions)
- Official source of financial reporting
- Central Back Office
- Technical: [customised SAP](#)-platform

Evolution

- [Accrual Based Accounting System](#) operational since 2005
- Built on the foundations of cash based accounting
- > study of the revision of the IT-architecture launched

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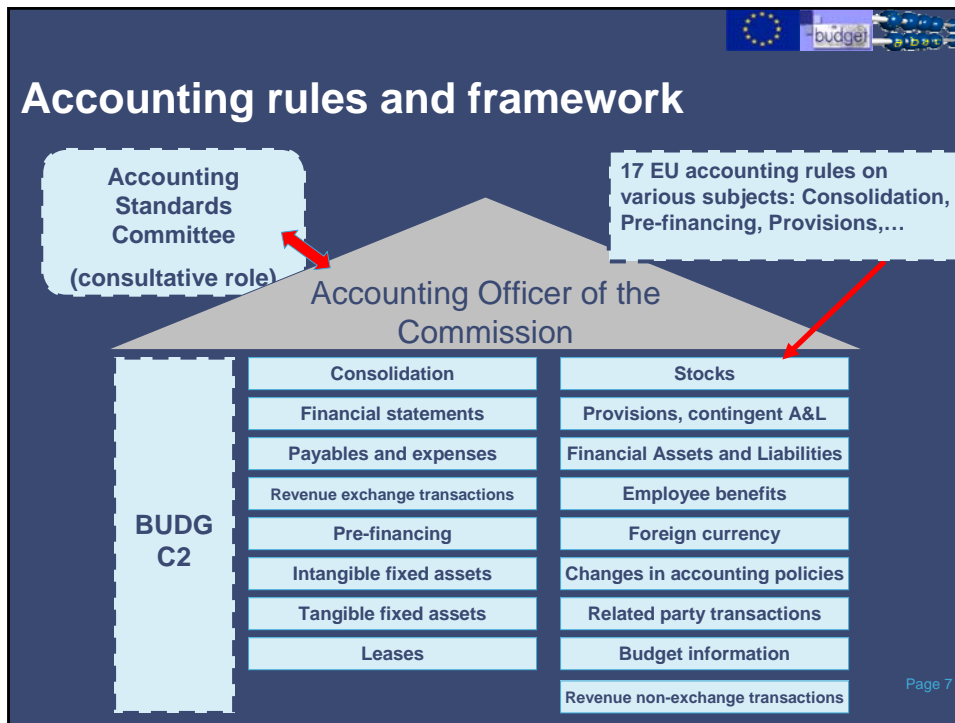
Accounting rules and framework


Art 133 Financial Regulation

- The Accounting Officer (AO) of the Commission adopts the accounting rules and methods to be applied by all institutions, bodies etc.
- He shall be guided by internationally accepted accounting standards for the public sector → **IPSAS**
- If no IPSAS, IAS/IFRS can be used (i.e. IAS 39)
- Derogation from IPSAS allowed if justified by specificities within the EU

Accounting rules and framework

- All transaction types were reviewed and decided how to account for these => rules, manuals & procedures
- Accounting Framework:
 - 17 EU accounting rules adopted (IPSAS based)
 - Accounting Manual
 - Chart of accounts adapted
- Interpretation of IPSAS and rules adjusted where necessary to EU specificities (not many derogations)
- Manual is reference for accounting transactions



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- ## Annual Accounts
- Annual accounts per Institution, EU body and consolidated annual accounts
 - Annual accounts of the Commission and of the European Union adopted by the Commission
 - Annual accounts:
 - Financial statements
 - Balance sheet, economic outturn account, statement of changes in net assets, cashflow statement and notes
 - Budgetary reporting
 - Accounting officer assures “true and fair view”
 - The European Court of Auditors deemed these accrual based accounts reliable since 2005
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Challenges in applying IPSAS/accrual accounting

Pensions

- Pension liability recognised according to IAS 19/ IPSAS 25 => Defined benefit obligation: actuarial valuation
- No pension fund for staff, no employer contribution
- Staff contributions are an administrative revenue
- Guarantee from Member States to pay when due
- Previously an asset was recognised re. guarantee
- Impact on balance sheet 31/12/09: €34 billion liability and no corresponding asset since a guarantee is not an asset
- Main reason for negative net assets (€44.7 billion)

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Challenges in applying IPSAS/accrual accounting

Pre-financing

- Pre-financing not just a budget charge but an asset
- Main asset of the EU with +/- €50 billion net amount
- Split between short term and long term necessary
- No IPSAS on this subject but due to material nature of PF Commission wrote a specific rule (#5)
- Cut-off – a complex exercise:
 - Estimation of implementation of programmes at balance sheet date => accruals/clearing of PF
 - Better view of the amounts paid out not yet eligible

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