



EUROPEAN COMMISSION

BUDGET EXECUTION (GENERAL BUDGET AND EDF)

DG BUDGET PROJECT

**"PROVIDE ACCOUNTING SERVICES
FOR OTHER EU BODIES"**

**Preliminary information – EXTERNAL
ENTITY**

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1. EXECUTIVE SUMMARY

1.1. Objective

Given the current financial crisis, there is considerable pressure on the EU budget. Therefore, there is a need for all External entities to reduce administrative costs, particularly via reductions in headcount.

In order to support this process, the approach proposed by BUDG is to make available accounting services at the request of any External entity under the scope of the project, at a cost lower than what they pay currently. It is then up to the External entity to accept the offer or not.

The principle to be applied is that no profit will be made.

1.2. Requirements and limitations

- A Service Level Agreement ("SLA") must be signed and the Commission's Accounting Officer must be formally appointed.
- External entities must use the ABAC system and will continue to pay the fee for this.
- At least one financial contact person (and back-up) must be nominated in the finance unit of the External entity to perform the same functions as currently done by the accounting correspondents within the DGs (e.g. first quality review of accounting entries, preparation of year-end-entries, etc). This person is of course under the authorising officer's responsibility and would still perform non-accounting tasks. Ideally it should be someone already working in the accounting department of the External entity or with an adequate accounting background.
- The budget officer, as it is the case in the entities under the responsibility of the EC Accounting Officer, is responsible for the same functions as the budgetary reporter in the EC (e.g. delivery of budgetary data, execute budget transfers, budgetary interface, ...);
- A fact-finding analysis by DG Budget to the External entity will be needed to ascertain the finer details of the work to be done and the cost. Complete and up-to-date documentation of the accounting processes would also be required.

1.3. Accounting Officer's services

The services that could be provided are as follows:

- Treasury;
- Accounting;
- Central budgetary framework;
- Management of recoveries;
- Validation of local systems;
- Reporting

1.4. Advantages

- Economies of scale will provide savings on administrative overheads and accounting technical assistance. The cost savings are estimated at over 50% in relation to the set-up of a specific Accounting Service within the External entity;
- Increased quality of service: External entities would have full access to the expertise of DG Budget and will enjoy a better analysis of their needs and a more adequate solution of their problems;
- Relevant treasury related advantages: improved risk management, availability of specialised banking services, better payment architecture. As the ABAC accounting system is already used, the changeover should not be overly complex;
- Business Continuity (in particular for what concerns payment operations) is ensured;
- The authorising officer maintains the same responsibilities and tasks. For example, regarding the payment flow the External entity still inputs its own invoices, approves them and validates its payments. DG Budget simply processes the payments;
- The independence of the External entity, the decision making and management remain as they are now. The Accounting Officer's role is to (partly) provide information.

1.5. Fees

Following the analysis of the External entity a fixed annual fee will be proposed, for all Accounting Officer's services except for the validation of local systems, which is a service that is provided on a multi-annual basis.

The fixed annual fee would not include mission, consultancy or general costs incurred by DG Budget. Consultancy and general costs shall cover the additional cost needed to guarantee the reliability of the information used for the production of accounts, as well as requests by the External Entity which falls outside the services mentioned in 1.3, above.

2. ROLE AND TASKS OF THE ACCOUNTING OFFICER

According to Article 68, paragraph 1, of the Financial Regulation, each External entity is required to appoint an Accounting Officer, with the following responsibilities:

- a) Properly implementing payments, collecting revenue and recovering amounts established as being receivable;
- b) Preparing and presenting the accounts;
- c) Keeping the accounts;
- d) Laying down the accounting procedures and the chart of accounts;
- e) Laying down and validating the accounting systems and where appropriate validating systems laid down by the authorising officer to supply or justify accounting information; in this respect, the Accounting Officer shall be empowered to verify at any time compliance with validation criteria;
- f) Treasury management.

A similar provision is contained in the Financial Regulation applicable to the External entities.

It is thus clear that the tasks to be performed are both numerous and cover many different areas. Therefore, an Accounting Officer needs to have multi-disciplinary competences and/or specialist teams behind him. Importantly, it must be noted that the Accounting Officer cannot perform any Authorising Officer's tasks.

3. WHAT DG BUDGET CAN OFFER

The provision of Accounting Officer's services imply that the Accounting Officer of the Commission becomes the Accounting Officer of the External entity and assumes all responsibility for the tasks as outlined in the Financial Regulation.

This section outlines the accounting services that DG Budget can perform for other EU bodies, if requested, as well as a number of conditions that have to be fulfilled and these are also listed below.

3.1. Conditions

There are a number of essential items, or prerequisites that are needed for DG BUDG to offering accounting services to the External entities:

- A Service Level Agreement ("SLA") must be signed. The fees charged would equal to the cost to DG Budget;
- The External Entity must use and continue to use the ABAC system;
- The External Entity shall modify its authorising officer's procedures so as to provide for a standardisation of the Accounting Officer's procedures that will be aligned to those applicable to the Commission;
- The External entity must formally appoint the Commission's Accounting Officer as its Accounting Officer;
- A handover report shall be transmitted by the External Entity's current Accounting Officer to the EC Accounting Officer regarding the services to be provided. The hand-over file should also include:
 - Evidence that the budgetary accounts in terms of structures and appropriations are handed over accurately and completely reflect the underlying formal decisions taken by the Governing Board of External entity;
 - Evidence that the use of accrual accounting in terms of applied accounting policies and rules comply with the EU accounting rules.
- **Budget Officer:**
 - Delivers of budgetary data related to the establishment of the budget and the year-change (e.g. correspondences) in a standardised manner;
 - Takes necessary actions during the year-change process (e.g. apply exception rules in ABAC);
 - Executes transfers;
 - Acts as budgetary interface (e.g. defining and interpreting the budgetary nomenclature).

- **Financial contact person:**

The Authorising Officer of the External entity, in line with the FR, guarantees the reliability of the accounting information provided to the Accounting Officer. As it is currently the case for the entities under the responsibility of the EC Accounting Officer, the External entity must nominate a Financial contact person (and

deputy), who in addition to his other authorising officer tasks, will be responsible for:

- Being the first point of contact for DG BUDG services;
- Answering basic accounting questions raised by the External entity's staff, with the help of DG BUDG when needed;
- Drafting and maintaining External Entity's accounting procedures and ensuring their compliance to EU accounting rules and other guidance provided by DG BUDG.
- Performing regular controls on the accounting environment to ensure the adequacy of the GL account input in ABAC – update the risk analysis, align the revision programme to the conclusions of the risk analysis and follow-up on the implementation of eventual correcting actions;
- Reconciliation of the G/L accounts with the operational (e.g. budgetary) information;
- Preparing the annual closure file and (parking) the closure bookings of the body (eventual corrections, cut-off, provisions, etc.), which will then be analysed and validated (posted) by DG BUDG;
- Participating in the annual audit: provide information and documentation to the Court of Auditors and/or external and internal auditors;
- Providing information on the operations to which an amount received may relate;
- Sending the debit notes to the recipients.

The financial contact person must have an adequate accounting background and his/her recruitment will require the participation and/or agreement of the EC Accounting Officer.

- **The Director of the External Entity** shall countersign the management representation letters sent by the EC Accounting Officer to the European Court of Auditors.

3.2. Accounting Officer's services

The services that could be provided are disclosed in detail in the **annex** and can be grouped as follows:

- Treasury;
- Accounting;
- Central budgetary framework;
- Management of recoveries;
- Validation of local systems.

3.3. Services specifically excluded

The EC Accounting Officer will not be involved in authorising officer's responsibilities, whether of an accounting nature or not, namely implementing expenditure and

revenue, ensuring compliance with the requirements of legality and regularity and guaranteeing the reliability of the accounting data, which, inter-alias, include the following:

- Participation in the preparation and processing of financial operations (i.e. commitments, payments, clearing of pre-financing, forecasts of revenue, recovery orders), except for the accounting registration of recovery orders;
- Control of the reliability (e.g. use of the adequate GL account) of the accounting information of each financial operation (e.g. payment request) or ensuring the completeness of the accounting operations (e.g. reconciliation of G/L accounts with operational information);
- Update monthly rates for travel claims;
- VAT return request submissions;
- Contact with beneficiaries/debtors, except as part of the follow up of overdue debit notes;
- The External entity remains fully responsible for the filing and archiving of any document supporting the Authorising Officer by Delegation.

4. ADVANTAGES FOR THE EXTERNAL ENTITY

4.1. Cost savings

Economies of scale will be generated that will allow the External entity to better manage their budget constraints by ensuring cost savings for them and the EU budget. These cost savings that are not available at the level of an individual body should arise as a result of the following:

- Reduce administrative headcount while still receiving the same services/benefits;
- Reduce the accounting technical assistance fees while still receiving the same services/benefits;
- Savings on IT licence fees as less users should be needed;

The cost savings are estimated at over 50% in relation to the set-up of a specific Accounting Service within the External entity.

4.2. Other advantages

- Increased quality of service:
 - Full access to a wide range of expertise: Currently the Accounting Officer in the External entity has to be a jack of all trades. This is to be compared to the accounting services in DG BUDG with some 140 staff with expertise in all areas;
 - Access to informal advice on system's or non-accounting matters;
 - Availability of specialised IT tools that can only be used by large organisations;
 - Better analysis of the entity's needs and more adequate solution of its problems;
 - Harmonisation of outputs and procedures across more bodies – benefit from best practices;
 - Improved quality of reports: the harmonisation of procedures and involvement of experts of DG BUDG should improve the quality of reports etc.
- Relevant treasury related advantages
 - Improved risk management (lessened exposure to commercial banks, generally better rated counterparties);
 - Treasury related risks managed by specialized personnel;
 - More efficient and comprehensive payment architecture;
 - Availability of specialized banking services;
- Assurance of business continuity (during holidays, permanence, as well as in the context of Business Continuity Plan).

- Ensure respect of the segregation between Authorising and Accounting Officers' responsibilities, required by the External Entity's financial rules;
- Smooth transition: Given that only bodies that already use the ABAC accounting system are considered, the changeover should not be overly complex;
- No change in responsibilities, independence is maintained:
 - The External entity will still approve its own final annual accounts;
 - The Accounting Officer only performs his tasks => the authorising officer maintains the same responsibilities and tasks. For example, regarding the payment flow, the External entity still inputs its own invoices, approves them and validates its payments;
 - The independence of the External entity remains as it is now – the decision making and management remains the same, the Accounting Officer's role is to provide information for this;
 - The Authorising Officer remains responsible for dealing with the audit of the legality and regularity of transactions.

5. FEE FOR THE PROVISION OF ACCOUNTING OFFICER'S SERVICES

Following the analysis of the External entity a fixed annual fee will be proposed, for all Accounting Officer's services except for the validation of local systems, which is a service that is provided on a multi-annual basis.

The fixed annual fee does not include mission, consultancy or general costs incurred by DG Budget. Consultancy and general costs shall cover the additional cost needed to guarantee the reliability of the information used for the production of accounts, as well as requests by the External Entity which falls outside the services in section 3.2.

The External Entity agrees to incur any additional cost that may be necessary to guarantee the reliability of the accounting information used for the production of accounts providing a true image of the External Entity's assets and of its budget implementation.

These costs shall be reimbursed to the Commission on an actual cost basis, and – except for the costs necessary to guarantee the reliability of the information used for the production of accounts – only if the External Entity has requested formerly the execution of the tasks at the source of the incurred costs. These incurred costs will be charged back to the External Entity.

6. STEPS FOR THE PROVISION OF ACCOUNTING OFFICER'S SERVICES

The planning would be as follows:

- 1) Expression of interest of the External entity;
- 2) Analysis: Fact finding survey, data collection, diagnosis and definition on services to be provided, including at least one visit;
- 3) Finalisation of cost structure and draft SLA;
- 4) Signature of SLA;
- 5) Nomination of Commission Accounting Officer as Accounting Officer of the relevant External entity, including official handover from existing ones;
- 6) Start providing Accounting Officer's services.

ACCOUNTING OFFICER'S SERVICES

1 TREASURY

- Bank execution of all payments;
- Cash management;
- Reconciliation of payments;
- Follow-up of exceptions;
- Reception of receipts;
- Control of cost and revenue related to banking services;
- Management of relationship with banks (including contracts management and tender procedures);
- Treasury related risk management.

2 ACCOUNTING

The services include the following:

- Accounting quality review;
- Advice/decision on the adequate accounting treatment;
- Dissemination of best accounting practices for the accounting tasks under the responsibility of the authorising officer;
- Periodical controls on the quality of accounting data;
- Provisional and final closure comprising:
 - ✓ Fixed assets: if ABAC ASSETS or SAM are used, the reconciliation asset register / SAP and the calculation of depreciation;
 - ✓ Technical SAP closure tasks such as re-evaluation, carry forward of closing financial balances, opening/closure of fiscal periods in Asset Management, FI and CO modules;
 - ✓ Provision of clear instructions for the preparation of the closure file and the year-end postings;
 - ✓ Review and posting of the year end cut-off postings and other year-end bookings (e.g. provisions);
 - ✓ Filling in the consolidation package.
- Preparation of the provisional and final annual accounts and their dissemination according to the financial rules of the External entity;
- Participation in audit and discharge exercises concerning reliability of the accounts: providing explanations on accounting treatment and procedures applied, co-ordinate the responses to the audit finding, etc.
- Presentation (if requested) of the annual accounts (e.g. to the management board).

3 CENTRAL BUDGETARY FRAMEWORK

- Setting-up and managing the central budgetary framework, i.e. define business rules, create budget structure, manage appropriations, create Financial Year Transition tables, for:
 - ✓ Anticipated appropriations (if any);
 - ✓ Annual budget;

- ✓ Budget amendments.
- Co-ordination of the Financial Year Transition.

4 RECOVERY ACTIONS

- Validation of the recovery orders issued by the requesting body;
- Follow-up of the overdue debit notes;
- Offsetting of the unpaid recovery orders with payments to the same beneficiary/debtor;
- Enforced recovery will require a special arrangement with the Legal Service of the Commission.

5 VALIDATION OF LOCAL SYSTEMS

The services include the validation, in accordance with Article 68.1(e) of the FR, of the accounting systems and, where appropriate, systems laid down by the authorising officer to supply or justify accounting information, or gives his agreement to the modifications of such systems. The validation of local systems is performed every 5 years or every 3 years if three or more notified changes are made since the previous validation.

6 REPORTING

The services include the following:

- Legal budgetary reporting – annual and ad hoc;
- Establishment of the year-end budgetary implementation report within the context of the provisional and final closure.