



Commission for
Communications Regulation

Response to Consultation

Regulation of Universal Postal Services – Accounting Separation & Costing Methodology

Accounting Direction to An Post

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Contents

1	Foreword.....	3
2	Executive Summary.....	4
2.1	PURPOSE OF THE ACCOUNTING DIRECTION.....	4
2.2	SCOPE OF THE ACCOUNTING DIRECTION.....	4
2.3	ISSUES RAISED DURING THE CONSULTATION PROCESS	4
2.3.1	<i>The need for revision of the current Accounting Direction.....</i>	4
2.3.2	<i>Amendments to LECG's recommended revised Accounting Direction.....</i>	5
2.3.3	<i>Practicalities surrounding implementation of LECG's proposed changes.....</i>	6
3	Introduction	7
3.1	LEGAL BASIS.....	7
3.2	TRANSPARENCY OF ACCOUNTING	7
3.2.1	<i>Article 14.....</i>	7
3.2.2	<i>Article 15.....</i>	8
3.3	BACKGROUND	9
3.4	FORMAT OF DOCUMENT	9
4	The need for revision of the current Accounting Direction.....	10
4.1	SUMMARY OF CONSULTATION ISSUE	10
4.2	VIEWS OF RESPONDENTS	10
4.3	COMMISSION'S POSITION	10
5	Issues highlighted by ComReg in its Consultation Paper	11
5.1	SUMMARY OF CONSULTATION ISSUES	11
5.1.1	<i>Weighted (equivalent) Volumes.....</i>	11
5.1.2	<i>Definition of Regulatory Accounts</i>	11
5.1.3	<i>Form of Audit Opinion.....</i>	11
5.1.4	<i>Prior Year Accounts</i>	12
5.1.5	<i>Template Schedules</i>	12
5.2	VIEWS OF RESPONDENTS	12
5.2.1	<i>Weighted (equivalent) Volumes.....</i>	12
5.2.2	<i>Definition of Regulatory Accounts</i>	12
5.2.3	<i>Form of audit Opinion.....</i>	12
5.2.4	<i>Prior Year Accounts</i>	12
5.2.5	<i>Template Schedules</i>	13
5.3	COMMISSION'S POSITION	13
5.3.1	<i>Weighted (equivalent) Volumes.....</i>	13
5.3.2	<i>Definition of Regulatory Accounts</i>	13
5.3.3	<i>Form of Audit Opinion.....</i>	13
5.3.4	<i>Prior Year Accounts</i>	14
5.3.5	<i>Template Schedules</i>	14
6	Other Specific Issues Raised	15
6.1	SUMMARY OF LECG'S RECOMMENDED AMENDMENTS	15
6.1.1	<i>Identification of Mail Volumes</i>	15
6.1.2	<i>Publication of Regulatory Accounts</i>	15
6.1.3	<i>Other Audit Issues</i>	15
6.1.4	<i>Deadline for submission of Regulated Accounts to ComReg</i>	16
6.1.5	<i>Segmental Information.....</i>	16
6.1.6	<i>Information to support price increases</i>	16

Response to Consultation: Regulation of Universal Postal Services – Accounting
Separation & Costing Methodology / Accounting Direction to An Post

6.2	VIEWS OF RESPONDENTS	17
6.2.1	<i>Identification of Mail Volumes</i>	17
6.2.2	<i>Publication of Regulatory Accounts</i>	17
6.2.3	<i>Other Audit Issues</i>	17
6.2.4	<i>Deadline for submission of Regulated Accounts to ComReg</i>	17
6.2.5	<i>Segmental Information</i>	17
6.2.6	<i>Information to support price increases</i>	17
6.3	COMMISSION'S POSITION	17
6.3.1	<i>Identification of Mail Volumes</i>	17
6.3.2	<i>Publication of Regulatory Accounts</i>	18
6.3.3	<i>Other Audit Issues</i>	18
6.3.4	<i>Deadline for submission of Regulated Accounts to ComReg</i>	18
6.3.5	<i>Segmental Information</i>	19
6.3.6	<i>Information to support price increases</i>	19
7	Practicalities surrounding implementation of LECG's Proposed Changes ..	20
7.1	SUMMARY OF CONSULTATION ISSUE	20
7.2	VIEWS OF RESPONDENTS	20
7.3	COMMISSION'S POSITION	20
8	Additional Changes	21
8.1	SUMMARY OF CONSULTATION ISSUE	21
8.2	VIEWS OF RESPONDENTS	21
8.3	COMMISSION'S POSITION	21
9	Direction to An Post	22
	Appendix A – Legislation	32

1 Foreword

In accordance with the Postal Regulations¹, ComReg is required to issue directions to An Post as to how it should maintain separated accounts within its accounting systems. The purpose being to increase transparency by making available adequate information on the profitability and costs of the various services and business activities for regulatory and internal management purposes. This will enable An Post to demonstrate its compliance with the Tariff Principles, Terminal Dues Principles and Universal Service Obligations while facilitating ComReg to fulfil its statutory obligation to monitor such compliance.

In light of such obligations, ComReg on the 29 September 2006 published a consultation paper² to which it attached the Report and recommended revised Accounting Direction³ of its consultants, LECG of London.

ComReg wishes to thank all those who took the time to respond to this consultation. They have been very useful in informing ComReg's decision as to the processes and procedures that need to be incorporated in the new Accounting Direction, specifically in relation to account separation, revenue identification, volume measurement and costing methodology.

Mike Byrne,

Chairperson

¹ Regulation 11(2) of S.I. No. 616 of 2002 European Communities (Postal Services) Regulations, 2002 – See Appendix A

² ComReg 06/55 Consultation Paper: "Regulation of Universal Postal Services – Accounting Separation & Costing Methodology – New Accounting Direction to An Post".

³ ComReg 06/55a: "LECG, Commission for Communications Regulation, Revised Accounting Direction & Related Issues, 8 September 2006".

2 Executive Summary

2.1 Purpose of the Accounting Direction

The current Accounting Direction⁴ outlines the processes and procedures to be applied by An Post in the identification of its revenues and allocation and apportionment of its costs. This assists An Post in the preparation of its Regulatory Accounts, while facilitating ComReg in the effective discharge of its regulatory responsibilities, particularly with regard to Tariff Principles, Terminal Dues Principles and Universal Service Obligations.

The need for review of the current Accounting Direction has arisen due to market developments together with concerns with the processes currently employed by An Post in the formulation of its Regulatory Accounts.

2.2 Scope of the Accounting Direction

Following a tendering process, LECG of London was commissioned by ComReg in June 2006 to review the current Accounting Direction and recommend appropriate amendments.

In September 2006, ComReg issued a consultation paper² in which it attached LECG's report and recommended revised Accounting Direction³.

It was never the intention of ComReg that the current Accounting Direction should be extensively re-drafted but rather amended to reflect issues/concerns which have arisen since the current Accounting Direction was issued. In this regard, although the structure of the new Accounting Direction remains consistent with the current Accounting Direction, it is envisaged that it will provide greater clarity as to the processes and procedures that should be applied by An Post without creating an excessive burden on An Post.

In considering whether or not to concur with LECG's recommended revised Accounting Direction, ComReg while having regard to the submissions received in response to its consultation must ensure that all proposals are consistent with its legal powers.

2.3 Issues Raised during the consultation process

2.3.1 The need for revision of the current Accounting Direction

ComReg shares with the respondents to the consultation the view that the current Accounting Direction needs to be revised at this time. ComReg is of the opinion that the introduction of clear and transparent procedures will assist An Post in demonstrating its compliance with its legal obligations while enabling ComReg monitor such compliance.

⁴ D15/01 ODTR 01/74 Decision Notice & Report on Consultation "Regulation of Universal Postal Services – Accounting Separation & Costing Methodology Proposed Direction to An Post"

2.3.2 Amendments to LECG's recommended revised Accounting Direction

While ComReg did not in the consultation paper comment on the position taken by LECG or on its recommended revised Accounting Direction, it did identify five specific areas where it was of the opinion that there may be a need for further amendment. Having considered the view of interested parties in relation to LECG's recommendations and ComReg suggested modifications, ComReg has decided to amend the draft direction in the following respects:

2.3.2.1 Weighted (equivalent) volumes

In deciding on the methods of cost attribution and allocation, the objective of any postal operator must be to minimise the arbitrary allocation of costs to postal services by ensuring that they are allocated on an appropriate and relevant basis.

ComReg is of the opinion that the use of weighted equivalent volumes is not appropriate in allocating *all* costs which cannot be directly or indirectly attributed. In this regard, ComReg is of the opinion that the Accounting Direction be amended so that the provisions of the Postal Directive apply without qualification.

2.3.2.2 Definition of Regulatory Accounts

Definitions are inserted to clarify the distinction between Regulatory Accounts and the statutory Financial Accounts.

2.3.2.3 Audit Issues

LECG in its report identified that there was a need for further clarification, specifically in relation to, auditor independence, the letter of engagement and the form of the audit opinion.

Having considered the views of interested parties, ComReg is of the opinion that there is a need for it to engage further with the Irish accountancy profession and An Post so as to finalise the principles and guidelines that should be followed with regard to such issues.

2.3.2.4 Prior Year Accounts

In the interests of achieving greater comparability and consistency of Regulatory Accounts from year to year, ComReg has decided that the provisions of Article 4 of the 4th Council Directive 78/660/EEC 1978⁵ should be applied to the Regulatory Accounts of An Post rather than the provisions of GAAP (being more applicable to the financial accounts of quoted companies).

2.3.2.5 Template Accounts

An enabling provision is inserted to allow for discussions between ComReg and An Post to determine the Template Schedules for the provision of the Regulatory Accounting information to be submitted to ComReg annually.

⁵ Article 4 of the 4th Council Directive requires that 'in respect of each balance sheet and profit and loss account item the figure relating to the corresponding item for the preceding financial year must be shown. The Member States may provide that, where these figures are not comparable, the figure for the preceding financial year must be adjusted'.

2.3.2.6 Identification of Mail Volumes

Having considered the views of interested parties, particularly the objection from An Post to the disclosure of two sets of volume figures on the face of the Regulatory Accounts, ComReg is of the opinion that LECG's recommended revised Accounting Direction be amended to provide that the Regulatory Accounts be prepared on the basis of volume information recorded from revenue data recorded at the point of sale.

ComReg remains of the opinion however that there is also a need for an operations based system for volume measurement. It is therefore proposed that An Post should provide by way of a supplementary schedule a reconciliation of volume figures derived from both revenue and operational sources, providing details of trends using each method together with a detailed commentary of such.

2.3.2.7 Publication of Regulatory Accounts

It has been the practice of An Post since 2001 to publish a summary of its Regulatory Accounts on its website⁶.

With the objective of improving transparency even further, LECG proposed that the accounting direction include a provision that An Post be strongly encouraged to publish its Regulated Accounts. ComReg does not believe that it is appropriate to include such a provision in the direction but intends to agree with An Post the format of a summary sheet suitable for publication in the context of the discussions with An Post about the schedules referred to in paragraph 3.1(e) of the Direction.

2.3.2.8 Information to support price increases

The wording of this provision is revised to provide increased clarity as to when "price point" information should be provided.

2.3.3 *Practicalities surrounding implementation of LECG's proposed changes*

While ComReg is conscious that it must not impose an unnecessary burden on An Post, it must bear in mind its own legal obligations and responsibilities under the Postal Regulations.

ComReg is of the opinion that the new Accounting Direction should be applied by An Post in the preparation of its next set of Regulatory Accounts i.e. from 2007 onwards. In addition, ComReg is of the opinion that the Accounting Manual (which outlines the processes and procedures to be applied by An Post for the coming year) should be submitted to ComReg on an annual basis and in advance of the start of the relevant accounting period. In the first year however, the deadline of 1 February is acceptable to ComReg.

⁶<http://www.anpost.ie/AnPost/MainContent/About+An+Post/Annual+Reports/Regulatory+Accounts/Regulatoryaccounts.htm>

3 Introduction

3.1 Legal Basis

The Postal Directive⁷ establishes a harmonised regulatory framework for postal services throughout the European Union and for securing improvements in the Quality of Service provided. The Directive also defines a decision-making process regarding further opening of the postal market to competition.

The Directive was originally transposed into national law by the European Communities (Postal Services) Regulations, 2000, S.I. No. 310 of 2000, which has since been revoked and replaced by the European Communities (Postal Services) Regulations, 2002, S.I. No. 616 of 2002 (the “Regulations”).

Regulation 11(2)¹ of the Regulations requires ComReg to lay down directions about how the Universal Service Provider⁸ (currently An Post) should maintain separate accounts within its accounting systems so as to achieve the transparency of accounting⁹ required by the EU Postal Directive.

The Regulations provide that such accounts shall operate on the basis of consistently applied and objectively justifiable cost accounting principles, the information from such being made available in confidence to ComReg and the European Commission on request.

Regulation 11(5) of the Regulations provides that An Post shall comply with the requirements of Regulation 11(2) and (3) which shall be verified by auditors engaged by the provider and shall publish a statement to that effect in its annual report.

3.2 Transparency of Accounting

The accounts of An Post must conform to the standards of transparency described in Article 14 and 15 of the EU Postal Directive⁷.

3.2.1 Article 14

Prior to Article 14 there was no obligation on the USP (currently An Post) to maintain and use management accounts. Such accounts are nevertheless very useful

⁷ Directive 97/67/EC of the European Parliament and of the Council of 15 December 1997 on common rules for the development of the internal market of Community postal services and the improvement of quality of service.

⁸ In accordance with Regulation 4(2), An Post has been designated as the Universal Service Provider. The Regulations provide however that the Minister may designate one or more additional service providers as a universal service provider having an obligation to provide all or part of the Universal Service.

⁹ *“whereas separate accounts for the different reserved services and non reserved services are necessary in order to introduce transparency into the actual costs of the various services and in order to ensure that cross- subsidies from the reserved sector to the non-reserved sector do not adversely affect the competitive conditions in the latter”* (Recital 28 Directive 97/67/EC of the European Parliament and of the Council).

to ensure good corporate governance; by developing cost and revenue information for the company's different lines of business and different products/services.

Article 14 set out the principles that must be followed in the separation of the accounts, requiring that:

- The USP “*shall keep separate accounts within their internal accounting systems at least for each of the services within the reserved sector on the one hand and for the non- reserved services on the other*”
- “*Accounts for the non-reserved services should clearly distinguish between services which are part of the universal service and services which are not*”
- The accounting system of the USP shall allocate costs to each of the reserved and non-reserved services in accordance with article 14(3) of the Postal Directive or on a basis approved by the National Regulatory Authority (NRA).

3.2.2 Article 15

Article 15 of the EU Postal Directive 97/67/EC⁷ requires that the financial accounts of all Universal Service Providers shall be drawn up, submitted to audit by an independent auditor, and published in accordance with the relevant Community and national legislation applicable to commercial undertakings. In addition, and under Regulation (EC) No 1606/2002, all listed companies in the EU are required to prepare their financial accounts in accordance with the International Financial Reporting Standards (IFRS's).¹⁰

Although unlisted companies have the option at present to use the international accounting standards, it seems inevitable that both listed and unlisted companies will eventually be reporting under these standards and the sooner all companies prepare for this the better. ComReg is of the opinion that the application of these standards will lead to a more harmonised approach, with company accounts being more reliable, transparent and comparable.

IAS 14 ‘Segment Reporting’ in particular requires disclosure of revenue, expenses, profit and assets employed for each business segment.

In the preparation of its Statutory Financial Accounts, An Post provides a summary analysis of its turnover by way of a note to the accounts in accordance with the requirements of SSAP 25. It does not, however, publish information about profits and net assets for each segment, in accordance with SSAP 25, as its directors are of the opinion that “...*fuller compliance with the disclosure requirements of SSAP 25 ‘Segmental Reporting’ would be seriously prejudicial to the Group’s interests.*”

¹⁰ In addition member states have the option of requiring the use of IFRS's by other companies.

While ComReg is of the opinion that it would be preferable for An Post to prepare its statutory financial accounts as if it were a listed company and so comply fully with the provisions of IAS 14 and the other IFRS's, ComReg has not been given responsibility for monitoring compliance with this aspect of the Postal Directive.

3.3 Background

In September 2001, following a public consultation process,¹¹ the ODTR (ComReg's predecessor) issued an Accounting Direction⁴ to An Post. As over four years had elapsed since the Accounting Direction was issued, it was considered appropriate to commission an external review, with a view to issuing a new Direction under the 2002 Regulations.

Following its invitation to tender, ComReg commissioned LECG in June 2006 to examine the current Accounting Direction and recommend any changes which it considered necessary.

On the 29 September 2006, a consultation paper² attaching LECG's Report and recommended revised Accounting Direction³ was published by ComReg.

3.4 Format of Document

Only one response was received to this consultation i.e. from An Post. The An Post response did however attach by way of Appendix, comments from KPMG (the auditor's of An Post's statutory financial accounts). As the KPMG response was not received directly by ComReg it has been decided to treat the An Post and KPMG response as one.

In addition, on 7 November a late response was received from the Institute of Chartered Accountants in Ireland (ICAI) responding to the 'Audit and Confirmation of Compliance' section of LECG's recommended revised Accounting Direction. This response, together with comments received from other respondents has highlighted to ComReg the need for further engagement with the accounting profession in relation to the principles that should be followed in terms of the audit issues.

Each section of this report briefly summarises the issues raised in the consultation paper and by respondents, ComReg's analysis of those issues and the position adopted in response to the consultation. The concluding section to this report presents in the final form the Accounting Direction to be issued to An Post.

The submission received in response to this consultation is published separately by way of annex to this document (ComReg 06/63a), with confidential information excluded.

¹¹ ODTR 01/29 Consultation Paper: "Regulation of Universal Postal Services- Accounting Separation & Costing Methodology Proposed Direction to An Post"

4 The need for revision of the current Accounting Direction

4.1 Summary of Consultation Issue

As over four years had elapsed since the Accounting Direction was first issued, the consultation paper recommended the issue of a new Accounting Direction to An Post under the current Regulations¹ because of concerns that:

- the processes applied by An Post to identify its revenues, measure its mail volumes and allocate and apportion its costs at the service level, together with the manner in which information is provided to ComReg, may not be sufficiently robust to demonstrate compliance with its legal obligations.
- the provisions of the current Accounting Direction may not meet today's needs. Additionally, market developments such as the introduction of EPOS¹² postage labels, together with the gradual reduction in the size of the reserved area, mean that specific requirements of the current Accounting Direction may no longer be appropriate.

Interested parties were asked:

Q. 1. Do you consider that the current Accounting Direction should be revised at this time?

4.2 Views of respondents

In its response to consultation, the respondent in recognising the importance of an agreed approach to regulatory reporting requirements concurred that the current Accounting Direction needs to be revised. It was of the view that this was necessary so as to provide greater clarity to An Post, ComReg and the auditor as to the required format of the regulated accounts. It also identified the need to ensure that the rules and regulations which form the basis for the Regulatory Accounts reflect market developments and the evolving needs of ComReg.

4.3 Commission's Position

Having considered the views of interested parties, and given ComReg's concerns surrounding the current processes and procedures employed by An Post to identify revenues, measure its mail volumes and allocate and apportion its costs, ComReg considers that there is a need to revise the current Accounting Direction at this time.

The introduction of clear and transparent procedures as outlined in a new Accounting Direction will assist An Post in demonstrating its compliance with its legal obligations and ComReg in monitoring such compliance.

¹² EPOS - Electronic Point of Sale

5 Issues highlighted by ComReg in its Consultation Paper

5.1 Summary of consultation issues

While ComReg did not in the consultation paper comment on the position taken by LECG or its recommended amendments to the current Accounting Direction, it did however identify five specific areas where it was of the opinion that there may be need for further amendment.

5.1.1 *Weighted (equivalent) Volumes*

The current Accounting Direction and LECG's revised Accounting Direction provides that costs shall be apportioned between services on the "*basis of volumes, 'weighted' by factors which reflect the different impact of each item on the cost of the activity*".

The consultation paper identified that the use of weighted volumes can lead to product cost distortions as it attributes a greater proportion of common costs to high volume, low unit costs services than the method prescribed by the Postal Directive 97/67/EC¹³.

For this reason, ComReg in the consultation paper identified that the use of weighted volumes was not appropriate in allocating all costs which cannot be directly or indirectly attributed and recommended that this provision be removed from the new Accounting Direction and the provisions of the Postal Directive apply without qualification.

5.1.2 *Definition of Regulatory Accounts*

So as to aid understanding, ComReg in the consultation paper proposed that the new Accounting Direction should distinguish between the scope of the Regulatory Accounts compared with that of the Statutory Financial Accounts.

5.1.3 *Form of Audit Opinion*

An audit opinion provides an indication to the users of accounts as to whether or not in the opinion of the auditor the accounts audited have been materially misstated.

While LECG in its recommended revised Accounting Direction proposed that the form of the audit opinion should be developed by ComReg after consultation with An Post's auditors and the Irish accountancy profession, ComReg in the consultation paper sought submissions on the proposition that the form of the audit opinion should be as per the Institute of Chartered Accountants in England and Wales (ICAEW) with appropriate adaptations.

In addition, LECG in its recommended revised Accounting Direction proposed that this issue be dealt with by way of a separate Direction whereas ComReg in the consultation paper outlined its preference for the inclusion by way of appendix to the new Accounting Direction.

¹³ See Article 14(3)

5.1.4 *Prior Year Accounts*

While LECG stated in the body of its report that best practice in relation to restatement of prior year accounts follows GAAP and recommended that An Post should follow this in the preparation of its Regulatory Accounts, it failed to make any provision for this in its recommended revised Accounting Direction.

In light of this gap, ComReg in its consultation paper proposed that at a minimum LECG’s recommendation should be incorporated into the new Accounting Direction.

5.1.5 *Template Schedules*

While ComReg in the consultation paper agreed with LECG that there was a need to develop schedules so as to eliminate ambiguity, it was of the opinion that such schedules must be dynamic and reflect changes in An Post’s services and organisational structure. In this regard, ComReg proposed that this issue should be dealt with by way of an enabling provision in the new Accounting Direction with the details being agreed directly with An Post on an annual basis.

Interested parties were asked:

<p>Q. 2. Do you consider that the changes recommended by LECG are warranted and appropriate?</p>

5.2 Views of respondents

5.2.1 *Weighted (equivalent) Volumes*

While the respondent to the consultation was of the view that the basis on which costs are allocated should be agreed between An Post and ComReg, no opinion was expressed as to the appropriateness of weighted volumes as a cost driver.

5.2.2 *Definition of Regulatory Accounts*

The respondent to the consultation did not comment on ComReg’s proposed addition.

5.2.3 *Form of audit Opinion*

While the respondent to the consultation identified that an appropriate form of audit opinion would be one which states that the regulated financial accounts have been “*properly prepared in accordance with the.....Direction*”, it was of the opinion that the decision as to its form should be left in the hands of the accountancy profession.

No opinion was expressed as to whether this issue should be dealt with as part of the new Accounting Direction or by way of a subsequent Direction.

5.2.4 *Prior Year Accounts*

With the exception of clarifying the specific requirements of GAAP in relation to restatements of prior year financial information and specifying that in its opinion the

Response to Consultation: Regulation of Universal Postal Services – Accounting Separation & Costing Methodology / Accounting Direction to An Post form of GAAP should be agreed between An Post and ComReg, the respondent did not express any opinion as to ComReg’s proposed amendment.

5.2.5 *Template Schedules*

The respondent to this consultation was of the opinion that template schedules are critical to the production of future regulatory accounts and considered it imperative that working parties be established to determine their exact nature.

5.3 **Commission’s Position**

5.3.1 *Weighted (equivalent) Volumes*

In deciding on the methods of cost attribution and allocation, the objective of any postal operator must be to minimise the arbitrary allocation of costs to postal services by ensuring that they are allocated on an appropriate and relevant basis.

Having considered the views of interested parties, ComReg is of the opinion that while the Accounting Manual should set out the basis which each cost is to be allocated and apportioned between services, the methods applied must be consistent with the provisions of the Postal Directive and reflect the driver of the associated cost. Reference to the use of ‘*weighted volumes*’ should therefore be deleted from the direction.

This would not however prevent An Post from using a ‘*weighted volume*’ basis to indirectly attribute appropriate common costs so long as the weighting factors are correctly calculated on an annual basis and reflect the driver of the associated cost.

5.3.2 *Definition of Regulatory Accounts*

ComReg remains of the opinion that there is a need for greater clarity between Regulatory and Financial Accounts in the new Accounting Direction. In this regard, it has been decided that the following definitions shall be incorporated into the ‘Interpretation’ section of the Accounting Direction:

“Regulatory Accounts” means separated accounts, reflecting the actual costs incurred in the provision of a service in a particular accounting period and meeting the requirements set out in the section of this Direction entitled ‘Fundamental requirements’.

“Financial Accounts” means the statutory accounts of An Post, prepared in accordance with sections 32 and 33 of the 1983 Act and Article 15 of Directive 97/67/EC of the European Parliament and of the Council (as amended).

5.3.3 *Form of Audit Opinion*

Having considered the response received to the consultation on this issue, ComReg is of the opinion that there is a need for further engagement with bodies representative of the Irish accountancy profession and An Post before it will be in a

Response to Consultation: Regulation of Universal Postal Services – Accounting Separation & Costing Methodology / Accounting Direction to An Post position to finalise the principles and guidance that should be followed in terms of the form of audit opinion.

ComReg has decided that this issue be dealt with by way of an enabling provision in the Accounting Direction with exact details being determined subsequently.

5.3.4 *Prior Year Accounts*

In the interests of achieving greater comparability and consistency of Regulatory Accounts from year to year, and having taken into accounts the views of interested parties, ComReg has decided that the provisions of Article 4 of the 4th Council Directive 78/660/EEC 1978¹⁴ should be applied to the Regulatory accounts of An Post rather than the provisions of GAAP (being applicable to financial accounts only). This provides that where current and prior year figures “*are not comparable, the figure for the preceding financial year must be adjusted.*”

5.3.5 *Template Schedules*

Having considered the views of interested parties, ComReg has decided that the Accounting Direction should include an enabling provision whereby the Regulatory Accounts of An Post shall be presented in the format and detail as outlined in Template Schedules.

ComReg is of the opinion that the format and level of detail of such schedules should be determined by ComReg on an annual basis and following discussion with An Post.

¹⁴ Article 4 of the 4th Council Directive requires that ‘in respect of each balance sheet and profit and loss account item the figure relating to the corresponding item for the preceding financial year must be shown. The Member States may provide that, where these figures are not comparable, the figure for the preceding financial year must be adjusted’.

6 Other Specific Issues Raised

In addition to ComReg’s proposed amendments, the respondent to the consultation raised concerns with regard to several issues proposed by LECG and included in its recommended revised Accounting Direction

The section below summarises the relevant amendments outlined in LECG’s recommended revised Accounting Direction, the views of respondents and the Commissioner’s position with regard to such issues.

6.1 Summary of LECG’s Recommended Amendments

6.1.1 Identification of Mail Volumes

As the current Accounting Direction made no prescriptive provision for the measurement of mail volumes for each regulated service, it had been the practice of An Post to use a revenue-derived approach to measure its mail volumes at the business segment and service levels.

In recent years, An Post reported a very significant decline in the volume of ordinary letters where the postage is paid by means of postage stamps, despite a significant increase in the value of stamps sold. There is concern that this apparent decline arises from a change in the measurement process rather than a real decline in volumes. Given such concerns, it is now all the more important that there is an independent system for volume measurement that can then be reconciled with revenue received (or receivable).

LECG in its recommended revised Accounting Direction proposed that:

“the regulatory accounts shall include volume information that shows mail volume, by service, recorded separately from (i) revenue data recorded at the point of sale; and (ii) operational data recorded in the outward phase of the postal pipeline;”

6.1.2 Publication of Regulatory Accounts

Published Regulatory Accounts have the benefit of improved transparency particularly in circumstances where An Post refers to specific segment results in the public domain which are not disclosed in its Statutory Financial Accounts.

LECG in its revised Accounting Direction recommended that the following text be included:

“An Post is strongly encouraged to publish and make readily available the regulatory accounts. These accounts could be included on An Post’s website”

6.1.3 Other Audit Issues

In addition to recommendations relating to the form of audit opinion (see section 5 above), LECG also proposes other amendments relating to the audit, specifically auditor independence and the letter of engagement.

6.1.3.1 Auditor Independence

Auditors have a responsibility to maintain independence so that their opinions and judgements will be impartial and viewed as such by the users of the accounts. Since the current Accounting Direction was issued, it has been the practice for the financial auditor of An Post to also audit its compliance with the specified cost accounting methodology. While there are advantages in using the financial auditor, LECG in its revised Accounting Direction recommended that there is a need for engagement of “*independent auditor(s) to verify compliance with the Direction and to perform an audit of the regulatory accounts.*”¹⁵

6.1.3.2 Letter of Engagement

A letter of engagement formalises the expectations of the audit, outlining the scope of the audit and the terms and conditions of the auditor’s engagement. Given ComReg is a significant user of An Post’s regulatory accounts and therefore relies heavily on the auditors statement of compliance, LECG were of the opinion that the current Accounting Direction be amended to provide that ComReg should be a party to the auditor’s terms of engagement and agree to the scope of the audit of the regulatory accounts.

6.1.4 Deadline for submission of Regulated Accounts to ComReg

LECG in its recommended revised Accounting Direction propose that An Post shall provide to ComReg its regulated accounts disaggregated to the level of services within 19 weeks of the end of each financial year.

6.1.5 Segmental Information

LECG, in its recommended revised Accounting Direction propose that An Post shall as part of its Regulated Accounts provide profit and loss accounts and balance sheets for each business segment as defined by IAS 14.

6.1.6 Information to support price increases

While the Regulated Accounts of An Post will enable ComReg to identify the profitability for each regulated service as a whole, a more detailed analysis at each price point is required so as to enable ComReg to assess An Post’s compliance with the Tariff Principles, whilst ensuring that there is no cross-subsidisation between reserved and non-reserved services.

LECG in its recommended draft Accounting Direction proposes that the requirement of the current Accounting Direction should continue with minor amendment i.e.:

“A detailed report must be prepared annually in connection with the regulatory accounts, or whenever revised prices are announced (or whenever An Post seeks concurrence with proposals to increase prices

¹⁵ Article 14(5) provides “*National regulatory authorities shall ensure that compliance with one of the cost accounting systems described in paragraphs 3 or 4 is verified by a competent body which is independent of the universal service provider. Member States shall ensure that a statement concerning compliance is published periodically.*”

Response to Consultation: Regulation of Universal Postal Services – Accounting Separation & Costing Methodology / Accounting Direction to An Post *within the Reserved Sector*), comparing the existing and/or proposed price with a detailed estimate of the costs of providing the service.”

6.2 Views of Respondents

6.2.1 Identification of Mail Volumes

The respondent to the consultation objected to the disclosure of two sets of volume figures in the Regulated Accounts and it was of the opinion that the “current” revenue-derived basis must remain the basis for preparation and reporting of the regulated accounts so as to maintain their clarity and certainty.

6.2.2 Publication of Regulatory Accounts

While the respondent to this consultation expressed a willingness to meet with ComReg to discuss the structure of data it would wish to see An Post publish, it was opposed to the publication of the full set of regulatory accounts due to its commercially sensitive nature.

6.2.3 Other Audit Issues

6.2.3.1 Auditor Independence

The respondent to the consultation was of the opinion that on grounds of efficiency it is common practice for Regulated Entities to appoint the same auditor for both the financial statement and regulatory audits.

6.2.3.2 Letter of Engagement

The respondent to the consultation was of the opinion that although it was willing to consult with ComReg in relation to the engagement letter, it was of the view that the formal engagement should be between An Post and the auditor.

6.2.4 Deadline for submission of Regulated Accounts to ComReg

In its response to consultation, An Post refused to commit to an exact deadline until such time as there was clarity about the practicalities that would be involved.

6.2.5 Segmental Information

The respondent to the consultation while objecting to this proposal, stated that it has no objection to the provision of information for the “mails business segment”.

6.2.6 Information to support price increases

The respondent to the consultation was of the view that the same kind of information should not be provided to ComReg in advance of non-reserved price increases. It was also of the view that ComReg does not have ex-ante jurisdiction over non-reserved price increases and therefore it cannot accept requirements in the Accounting Direction that would seek to give ComReg de facto power of prior approval over non reserved prices.

6.3 Commission’s Position

6.3.1 Identification of Mail Volumes

While ComReg has no issue with the use of a revenue derived basis to calculate mail volumes, the “current” basis is unacceptable to ComReg (see ComReg document 05/94 “Response to Consultation & Decision Notice – An Post Domestic Pricing

Response to Consultation: Regulation of Universal Postal Services – Accounting Separation & Costing Methodology / Accounting Direction to An Post Application 2005” which outlines ComReg’s concerns surrounding the processes and procedures employed by An Post).

Having considered the views of interested parties, ComReg is of the opinion that LECG’s recommended revised Accounting Direction be amended to provide that the Regulatory Accounts be prepared on the basis of volume information recorded from revenue data recorded at the point of sale.

In addition, however, a supplementary schedule shall be provided which reconciles the revenue derived volume figure with operational data recorded in the outward phase of the postal pipeline, provides details of volume trends recorded using each method together with a detailed commentary.

6.3.2 Publication of Regulatory Accounts

There is a wide range of parties; consumers, stakeholders, competitors and regulators who have an interest in the Regulatory accounting information of the Universal Service Provider. Although having legitimate interests in its financial accounts, the availability of more detailed Regulatory Accounts is constrained by the commercial confidentiality of the information. Nevertheless and to An Post’s credit it has been its practice since 2001 to publish its summary Regulated Accounts on its website⁶.

With the objective of improving transparency even further, LECG proposed that An Post be strongly encouraged to publish its Regulated Accounts.

ComReg believes that An Post should continue to publish a summary of its Regulatory Accounts but does not consider it appropriate to include any reference to this in the formal accounting direction. ComReg welcomes An Post’s intentions to meet with it to discuss the structure of such a publication. ComReg’s principal concern must be to ensure that when An Post publishes information extracted from the Regulatory Accounts submitted to ComReg it should set out such information in the context of the Regulatory Accounts in their entirety. In its discussions with An Post about the schedules referred to in paragraph 3.1(e) of the Direction, ComReg will discuss the format of a summary sheet suitable for publication.

6.3.3 Other Audit Issues

Having considered the responses received to the consultation on the other audit issues, ComReg is of the opinion that in addition to the form of audit opinion there is a need for further engagement with bodies representative of the Irish accountancy profession and An Post before it will be in a position to finalise the principles and guidance that should be followed.

As with the form of audit opinion, ComReg has decided that these issues should be dealt with by way of an enabling provision in the new Accounting Direction with the exact details being determined subsequently.

6.3.4 Deadline for submission of Regulated Accounts to ComReg

Although An Post has failed to commit to the proposed deadline of LECG, ComReg remains of the view that this proposal should remain unchanged.

ComReg does however recognise that there will be some learning curve effects in achieving this target in the first year. It is in this regard that ComReg would now like to clarify that there will be some leniency surrounding this timeframe in the first year of implementation.

6.3.5 Segmental Information

ComReg's statutory obligations relate to both reserved and non-reserved categories of the USO. In accordance with Regulation 9(5) of the Regulations, ComReg must ensure that An Post uses revenues from services in the reserved area to subsidise services outside the reserved area only to the extent necessary to fulfill its specific universal service obligations. Unnecessary and therefore unallowable cross-subsidisation could occur, for example, if An Post allocated too much of the shared network costs to the regulated (USO) segments and not enough to the non-regulated (Non-USO) segments, resulting in the over-costing and pricing of its USO services and the under-costing and pricing of its non-USO services.

In the interests of increasing the reliability that can be placed on the Regulated Accounts, ComReg agrees with LECG's proposal that profit and loss accounts and balance sheets for each business segment as defined in IAS 14 shall be prepared and submitted to ComReg on an annual basis.

6.3.6 Information to support price increases

In accordance with Regulation 9(1) of the Regulations, An Post is required to ensure that the tariffs for all its universal services (both reserved and non-reserved) comply with the Tariff Principles, i.e. affordable, geared to cost, transparent and non-discriminatory. The onus is on An Post to comply with these obligations and to satisfy ComReg that it has done so.

In addition, and in accordance with Regulation 17(1), it is a "*function of the Regulator to monitor compliance*" with the Regulations including Regulation 9(1). In this regard, and in accordance with Regulation 17(3), An Post "*shall furnish the Regulator with any such information as the Regulator may reasonably require*" for the purposes of ensuring compliance with these obligations. There is no restriction therefore as to when ComReg can request that An Post provide such information.

Having considered LECG's proposed recommendation, the views of respondents and given ComReg's regulatory powers and responsibilities, ComReg has identified a need for greater clarity with regard to this topic. It is therefore of the opinion that LECG's proposal be amended to read:

"A detailed report must be prepared by An Post annually in connection with the Regulatory Accounts, setting out for each price point a detailed estimate of the costs of providing the service."

This wording reflects the reality that such information is normally collated on an annual basis. Should the need for more frequent analysis arise, section 3.3 of the Accounting Direction provides that ComReg can request An Post to prepare and provide such ad hoc reports as may be required from time to time.

7 Practicalities surrounding implementation of LECG's Proposed Changes

7.1 Summary of Consultation issue

LECG in its recommended revised Accounting Direction proposed that the new Accounting Direction apply to accounting periods beginning on or after 1 January 2007. In addition, it proposed that An Post submit to ComReg for approval no later than 1 February 2007 its timing programme for compliance, including the preparation of the Accounting Manual.

While ComReg in its consultation paper did not comment on these recommendations, interested parties were asked:

Q. 3. What is your view on the practicalities, timelines, cost etc. of implementing the changes recommended by LECG?

7.2 Views of respondents

An Post in its response to the consultation while stating that it was committed to engage with ComReg on all issues as soon as possible it was of the opinion that it would be premature to commit to particular dates at this time.

7.3 Commission's Position

Having considered LECG's proposed recommendations together with the comments of interested parties, ComReg is of the opinion that the new Accounting Direction should be applied in the preparation of An Post's next set of regulatory accounts i.e. from 2007 onwards.

While LECG's recommended Accounting Direction requires that An Post should obtain ComReg's approval for each annual edition of the Accounting Manual in advance of the start of the relevant regulatory period, ComReg concurs with LECG's proposal for leniency in the first year and therefore the deadline of 1 February is acceptable to ComReg. For future years however, An Post is required to submit its Accounting Manual before the start of each accounting period.

ComReg is of the opinion that LECG's proposal for submission by An Post of details of its timed programme of compliance is reasonable and should therefore remain in the final Accounting Direction.

8 Additional Changes

8.1 Summary of Consultation issue

ComReg in its consultation paper highlighted five specific areas where there may be a need for further amendment (see section 5 above for detailed analysis) and interested parties were asked the following question:

Q. 4. Are there any additional changes that you would recommend?

8.2 Views of respondents

The respondent to the consultation recommended no additional changes.

8.3 Commission's Position

With the exception of the amendments highlighted above, and so as to introduce greater clarity, ComReg is of the opinion that the format and structure of the Accounting Direction could be improved by the inclusion of paragraph numbers and the inclusion of additional (or amendments to) definitions under the 'Interpretation' section.

9 Direction to An Post

Decision No 1:

The terms of the formal Direction to be issued to An Post are as follows:

The Secretary
An Post
GPO
O'Connell Street
DUBLIN 1

Direction on the accounting systems of An Post

The Commission for Communications Regulation in accordance with Regulation 11(2) of the European Communities (Postal Services) Regulations 2002 (S.I. No. 616 of 2002), and having taken into account the views of interested parties following a public consultation, hereby gives the following direction:

1. Interpretation

1.1 In this direction, unless otherwise indicated:

“ComReg” means the Commission for Communications Regulation;

“Financial Accounts” means the statutory accounts of An Post, prepared in accordance with sections 32 and 33 of the 1983 Act and Article 15 of Directive 97/67/EC of the European Parliament and of the Council (as amended).

“GAAP” means Generally Accepted Accounting Principles and unless specified otherwise refers to Generally Accepted Accounting Principles applied in Ireland.

“IAS14” means International Accounting Standard No 14 “Segment Reporting” published by the International Accounting Standards Committee;

“Obligations on Universal Service Providers” means the obligations and principles to be observed by Universal Service Providers as set out in the Regulations;

“Regulatory Accounts” means separated accounts, reflecting the actual costs incurred in the provision of a service in a particular accounting period and meeting the requirements set out in the section of this Direction entitled ‘Fundamental requirements’

“Reserved Sector” means the services reserved for An Post as a Universal Service Provider, as set out in Regulation 8;

“Scheme” means a scheme made under section 70 of the 1983 Act;

Response to Consultation: Regulation of Universal Postal Services – Accounting Separation & Costing Methodology / Accounting Direction to An Post
“Service” means any service provided by An Post that involves the use of the public postal network as defined in the Regulations; and

(a) is identified as a separate service in the Schemes or price lists published by An Post, or is provided under a contract or standard agreement with individual customers; and

(b) operationally handles all items in the service in the same way;

If the service falls partly into the Reserved Sector and partly into the Non-Reserved Sector it shall be accounted for as if it were two separate services;

“Tariff Principles” means the principles set out in Regulation 9;

“Terminal Dues Principles” means the principles set out in Regulation 10;

“The 1983 Act” means the Postal and Telecommunications Services Act, 1983 (No. 24 of 1983), as amended;

“The 2002 Act” means the Communications Regulation Act, 2002 (no. 20 of 2002);

“The Regulations” means the European Communities (Postal Services) Regulations 2002 (S.I. No. 616 of 2002);

“Universal Service Obligation” means the specific obligations set out in Regulation 4 and

“Universal Service Provider” means An Post or any other legal person designated by the Minister for Public Enterprise under Regulation 4(2)(b).

1.2 In this direction, “Regulation” is a reference to a Regulation of the Regulations

2. Fundamental requirements

2.1 The financial records and accounting systems to be kept by An Post shall be sufficiently detailed to ensure that:

(a) all decisions are supported by sufficient data to enable An Post management to ensure that they comply with the Tariff Principles, Terminal Dues Principles and the other Obligations on Universal Service Providers, particularly those relating to cross subsidisation;

(b) ComReg can monitor compliance with the Tariff Principles, Terminal Dues Principles, and other Obligations on Universal Service Providers;

(c) separate accounts can be maintained for each of the services within the Reserved Sector on the one hand and each of the services within the Non-Reserved Sector on the other;

(d) any request for information by ComReg in accordance with Regulation 11(7) or 17(3) can be met promptly; and

Response to Consultation: Regulation of Universal Postal Services – Accounting Separation & Costing Methodology / Accounting Direction to An Post
(e) any request for information by the European Commission in accordance with Regulation 11(7) can be met promptly.

2.2 The financial records and accounting information shall be maintained in sufficient detail to facilitate a detailed analysis, on a geographic and/or category of customer and/or payment method basis, for the purpose of calculating the cost of complying with the Universal Service Obligation, and ensuring that tariffs comply with the Tariff Principles.

2.3 Reason:

To enable An Post to comply with its obligations under the 1983 Act and the Regulations and to enable ComReg to exercise its functions under the 1983 Act, the 2002 Act, the Regulations or any other relevant legislation.

3. Reporting and transparency

3.1 Regulatory accounts

In accordance with Regulation 11 and 17(3), An Post shall provide to ComReg Regulatory Accounts, disaggregated to the level of services, within 19 weeks of the end of each financial year. The Regulatory Accounts shall contain:

- (a) a commentary on the performance that shall explain at a minimum:
 - trends relating to products, expected significant future events and how these might impact An Post's business;
 - trends relating to revenue, by service;
 - trends relating to the mail volumes, by service;
 - significant year on year movements in the reported performance and balances;
 - one-off or exceptional events in the year;
 - large adjustments made to produce the Regulatory Accounts; and
 - the impact of changes in accounting policies, methodologies and estimation techniques;
- (b) a comprehensive explanation of the basis of preparation of the Regulatory Accounts, including an explanation of the key regulatory accounting policies adopted by An Post. This shall include, *inter alia*, details of An Post's income recognition policy, depreciation policy, capitalisation policy, and its approach to dealing with issues such as cost allocation, prior year adjustments and changes in accounting policy. This list is not exhaustive and shall be agreed between An Post, ComReg and the competent body conducting any review of the Regulatory Accounts;
- (c) profit and loss accounts and balance sheets for each business segment as defined in IAS14 or as agreed by ComReg, and prepared in accordance with IAS14. These

Response to Consultation: Regulation of Universal Postal Services – Accounting Separation & Costing Methodology / Accounting Direction to An Post accounts shall show data for An Post's last complete financial year as well as the previous financial year and where these figures are not comparable, the figure for the preceding financial year must be adjusted.;

(d) profit and loss accounts for the business segments providing services within the scope of universal service as defined in the Regulations and clarified by ComReg in any document issued following a public consultation, distinguishing between services wholly or partly within the Reserved Sector and those wholly within the Non-Reserved Sector. These accounts shall also include profit and loss accounts for each service. They are also required to be fully reconciled to the published financial accounts of An Post, identifying all items not relevant to the accounting period that have been excluded from the Regulatory Accounts;

(e) information relating to the regulatory reporting period to which this direction applies shall be presented in the formats and level of detail shown in the schedules as determined by ComReg on an annual basis following discussion with An Post;

(f) volume information that shows mail volume, by service, recorded from revenue data recorded at the point of sale. A supplementary schedule shall, however, be provided which reconciles revenue derived volumes with operational data recorded in the outward phase of the postal pipeline, together with details of volume trends by service recorded using the two methods. Such schedule shall include a detailed commentary;

(g) information relating to the revenue attributed to each service, distinguishing between revenues which have been directly allocated to specific services, and other revenues which have been allocated or apportioned on the basis of statistical sampling or other accounting allocator;

(h) details of expenditure by pipeline process distinguishing between costs which have been directly allocated to specific services, common costs which have been allocated on the basis of the origin of the costs themselves, and common costs which have been allocated on the basis of a general allocator;

(i) a signed statement from the Directors of An Post acknowledging their responsibilities for the preparation of the Regulatory Accounts and confirming their compliance with the requirements of this direction;

(j) a report and opinion by a competent body on the Regulatory Accounts and An Post's compliance with the requirements of this direction; and

(k) the results of the annual review of any statistical sampling process undertaken to identify revenue or mail volumes

3.2 Costing information relating to proposed prices

A detailed report must be prepared by An Post annually in connection with the Regulatory Accounts, setting out for each price point a detailed estimate of the costs of providing the service.

3.3 Ad hoc reporting

Such ad hoc reports shall be prepared and provided by An Post, as may be required by ComReg from time to time.

3.4 Reason:

To enable ComReg to exercise its functions under the 1983 Act, the 2002 Act, the Regulations or any other relevant legislation; and to provide increased transparency of the regulatory performance.

4. Accounting Manual

4.1 An Post must:

- (a) document in an Accounting Manual the procedures and policies being used in the preparation of its Regulatory Accounts;
- (b) document in the Accounting Manual the procedures undertaken to establish the processes used to identify revenues and mail volumes; by service;
- (c) review the Accounting Manual annually;
- (d) make the Accounting Manual subject to review by a competent body as and when required by ComReg; and
- (e) obtain ComReg's approval for each annual edition of the Accounting Manual in advance of the start of the relevant regulatory period.

4.2 The Accounting Manual shall contain a schedule showing how each individual cost category is treated. The Accounting Manual shall, at a minimum, provide an overview of:

- An Post's business, explaining the main activities and functions performed by An Post to deliver postal services to customers, clearly indicating which businesses and services are regulated;
- An Post's management structure;
- how the underlying financial transactions supporting An Post's business activities and functions are recorded in the financial ledgers, and how the transactions are grouped to provide the starting costs, revenues, assets and liabilities used within the internal costing systems to allocate costs;
- the accounting systems, in terms of the underlying costing principles and the conceptual flow of costs and revenues from source financial systems to the separated businesses;

Response to Consultation: Regulation of Universal Postal Services – Accounting
Separation & Costing Methodology / Accounting Direction to An Post

- what the Regulatory Accounts comprise and the regulatory accounting process (including the basis of preparation for the Regulatory Accounts);
- year on year changes to Regulatory Accounts and changes to cost allocations, together with an assessment of the impact of these changes;
- how the Regulatory Accounts differ from the Financial Accounts;
- the internal safeguards that are incorporated to ensure that the cost allocation system is free from material error; and
- the independent review of the Regulatory Accounts in terms of scope of the review and the process to appoint the competent body conducting the review.

4.3 The collection of data and the basis on which it is to be allocated and apportioned between services shall be guided by the following principles:

4.3.1 Business segments & inter-company/inter-segment transactions

Revenue and costs shall initially be directly assigned to business segments in accordance with the principles set out in IAS14. Fixed assets (buildings, vehicles, sorting equipment, etc.) shall be shown in the balance sheet of the “prime user”, with use by other business segments charged for on an arm’s length basis.

Inter-company and similar transactions between An Post and its subsidiaries or associated companies must take full cognisance of the Tariff Principles, Terminal Dues Principles and the Obligations on Universal Service Providers. Business segments, as defined by IAS14, should be regarded as “subsidiaries” for this purpose. In this regard, payments/charges shall be calculated on an arm’s length basis, and in a transparent and non-discriminatory manner, with the proviso that this transfer “charge” shall equal the price An Post would charge to any competitor who wished to use its network or pay to any external supplier.

4.3.2 Mail Volume and Revenue Identification

Within the business segments, as defined by IAS14, mail volumes and revenue shall be allocated to each of the Reserved Sector services and to the Non-Reserved Sector services respectively in the following manner:

- (a) mail volumes and revenue which can be directly assigned to a particular service shall be so assigned;
- (b) mail volumes, by service, shall be recorded separately, from (i) revenue data recorded at the point of sale; and (ii) operational data recorded in the outward phase of the postal pipeline;
- (c) mail volumes, by service, separately recorded, from (i) revenue data recorded at the point of sale; and (ii) operational data recorded in the outward phase of the

Response to Consultation: Regulation of Universal Postal Services – Accounting Separation & Costing Methodology / Accounting Direction to An Post postal pipeline, shall be compared. An Post shall understand and shall be able to report the reasons for any divergence between the two measures;

- (d) revenue, by service, shall be recorded at the point of sale;
- (e) mail volumes and revenue recorded at the point of sale that cannot be directly assigned to their use for specific services or retention by users for later use (e.g. postage stamps sold and franking machine credits) shall be apportioned to services on the basis of statistical sampling accurate to +/-1% at the 95% Confidence Level;
- (f) for mail volumes recorded in the outward phase of the postal pipeline, which cannot be directly assigned to their specific services (e.g. manually sorted mail items), mail volumes shall be apportioned on the basis of statistical sampling, by service, with a minimum margin of error as agreed with ComReg; and

A list of the Services shall be included in the Accounting Manual, and may be published by ComReg.

4.3.3 Cost Allocation and Apportionment Principles

Within the business segments, as defined by IAS14, costs shall be allocated to each of the Reserved Sector services and to the Non-Reserved Sector services respectively, in the following manner:

- (a) costs which can be directly assigned to a particular service shall be so assigned;
- (b) common costs, which are costs that cannot be directly assigned to a particular service, shall be allocated as follows:
 - (i) whenever possible, common costs shall be allocated on the basis of direct analysis of the origin of the costs themselves;
 - (ii) when direct analysis is not possible, common cost categories shall be allocated on the basis of an indirect linkage to another cost category or group of cost categories for which a direct assignment or allocation is possible; the indirect linkage shall be based on comparable cost structures;
 - (iii) when neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated on the basis of a general allocator computed by using the ratio of all expenses directly or indirectly assigned or allocated, on the one hand, to each of the Reserved Sector services and, on the other hand, to the other services.

4.3.4 Cost Allocation and Apportionment Rules

4.3.4.1 The Accounting Manual shall set out how the operating cost of the various aspects of the public postal network, as defined in the Regulations, shall be identified.

4.3.4.2 The Accounting Manual shall set out the basis on which the costs of particular activities are to be apportioned between services. Costs shall be apportioned between the various services that use each aspect of the network on the basis of factors/drivers which reflect the different impact of each item on the cost of the activity.

4.3.4.3 As a minimum, the hierarchy of costs to be applied to each service shall enable the cost of the following activities to be calculated:

- (a) Revenue Collection;
- (b) Collection;
- (c) Outward sorting;
- (d) Transport;
- (e) Inward sorting; and
- (f) Preparation and Delivery.

4.3.4.4 The hierarchy of accounts shall also distinguish between directly allocated costs, common costs which have been allocated on the basis of analysis of the origin of the costs themselves, and common costs which have been allocated on the basis of a general allocator. Accounting items not involving the movement of funds (e.g. depreciation) shall also be separately identified.

4.3.4.5 The Accounting Manual shall specify in technical detail the range and scope of the data to be collected and the basis on which it is to be allocated/apportioned between services. The Accounting manual shall also provide, at a minimum, details of:

- the process by which An Post identifies how costs are found to be directly or indirectly attributable, joint or common;
- the process by which An Post identifies how avoidable, variable and fixed costs are defined;
- how equivalent volume drivers are derived (if used);
- how costs are allocated to products with different weight, format and payment characteristics; and
- how cost allocation drivers are reviewed, updated and verified.

4.4 Reason:

To enable ComReg to exercise its functions under the 1983 Act, the 2002 Act, the Regulations or any other relevant legislation, and to enable ComReg to comply with Regulation 11(6).

5. Review and Confirmation of Compliance

5.1 An Post shall:

Response to Consultation: Regulation of Universal Postal Services – Accounting Separation & Costing Methodology / Accounting Direction to An Post

(a) engage a competent body to verify compliance with this direction and to perform a review of the Regulatory Accounts, in accordance with the principles and guidance set out from time to time by ComReg, following discussions with An Post and bodies representative of the Irish accountancy profession;

(b) publish the report and opinion of the competent body on An Post's compliance with the requirements of this direction in its annual report submitted to the Minister under section 33 of the 1983 Act; and

(c) include the report and opinion of the competent body, on the Regulatory Accounts and An Post's compliance with the requirements of this direction, within the Regulatory Accounts. The report and opinion shall comply with the principles and guidance set out from time to time by ComReg following discussions with An Post and bodies representative of the Irish accountancy profession;

5.2 An Post shall make:

(a) the Accounting Manual subject to review by a competent body as and when required by ComReg;

(b) the processes used by An Post to identify revenue and mail volumes subject to review by a competent body as and when required by ComReg; and

(c) any statistical sampling conducted to identify mail volumes subject to (i) annual statistical review; and (ii) annual procedural review, taking into account changes to the population size of each service or other significant market changes. The statistical and procedural reviews shall be conducted either by a statistical expert or ComReg, or as part of the review of the Regulatory Accounts. Any alterations to the procedure resulting from the review shall be stated in the Accounting Manual.

5.3 Reason:

To enable ComReg to exercise its functions under the 1983 Act, the 2002 Act, the Regulations or any other relevant legislation, and to enable An Post to comply with Regulation 11(5).

To enable ComReg to gain assurance over the robustness of the cost accounting system and processes, and the proper preparation and presentation of regulatory information.

6. Timetable

6.1 This Direction will apply to accounting periods beginning on or after 1 January 2007. An Post is required to submit for approval by ComReg, no later than 1 February 2007, its timed programme for compliance with this direction, including preparation of the Accounting Manual. In the same document, An Post shall indicate the extent to which it can comply with this direction for

Response to Consultation: Regulation of Universal Postal Services – Accounting
Separation & Costing Methodology / Accounting Direction to An Post
accounting periods ending on or before 31 December 2006, and the reasons why it cannot comply
with any specific item.

Mike Byrne

Chairperson

Commission for Communications Regulation

Dated 8th December 2006

Appendix A – Legislation

Regulation 11(1) – 11(3) of S.I. No. 616 of 2002

- (1) The accounting procedures of a universal service provider shall be conducted in accordance with this Regulation.
- (2) In accordance with directions laid down by the Regulator, a universal service provider shall keep separate accounts within its accounting systems, for each of the services within the reserved sector on the one hand and the non-reserved sector on the other. The accounts for the non-reserved sector shall clearly distinguish between services which are part of the universal service and services which are not. Such internal accounting systems shall operate on the basis of consistently applied and objectively justifiable cost accounting principles.
- (3) The accounting system referred to in paragraph (2) shall, without prejudice to paragraph (4), allocate costs to each of the reserved and to the non-reserved services respectively in the following manner:
 - (a) costs which can be directly assigned to a particular service shall be so assigned;
 - (b) common costs, that is costs that cannot be directly assigned to a particular service, shall be allocated as follows:
 - (i) whenever possible, common costs shall be allocated on the basis of direct analysis of the origin of the costs themselves;
 - (ii) when direct analysis is not possible, common cost categories shall be allocated on the basis of an indirect linkage to another cost category or group of cost categories for which a direct assignment or allocation is possible; the indirect linkage shall be based on comparable cost structures;
 - (iii) when neither direct nor indirect measures of cost allocation can be found, the cost category shall be allocated on the basis of a general allocator computed by using the ratio of all expenses directly or indirectly assigned or allocated, on the one hand, to each of the reserved services and, on the other hand, to the other services.