



Office of the Director of
**Telecommunications
Regulation**

Regulation of Universal Postal Services
– Accounting Separation & Costing Methodology
Proposed Direction to An Post

Consultation paper

Document No. **ODTR 01/29**

April, 2001

Oifig an Stiúirthóra Rialála Teileachumarsáide
Office of the Director of Telecommunications Regulation
Abbey Court, Irish Life Centre, Lower Abbey Street, Dublin 1.
Telephone +353-1-804 9600 *Fax* +353-1-804 9680 *Web:* www.odtr.ie

Contents

FOREWORD BY DIRECTOR	2
1. INTRODUCTION	3
2. BACKGROUND.....	3
2.1. GENERAL	3
2.2. FINANCIAL ACCOUNTS	4
2.3. MANAGEMENT ACCOUNTS	5
ACCOUNTING SEPARATION – CONSULTATION ISSUES.....	5
3. FINANCIAL RECORDS AND ACCOUNTING SYSTEMS – GENERAL PRINCIPLES.....	5
4. ACCOUNTING FOR CERTAIN ACTIVITIES AS SEPARATE COMPANIES	6
5. INTER-COMPANY AND SIMILAR TRANSACTIONS.....	7
6. DEFINITION OF “SERVICE”	7
6.1. GENERAL	7
6.2. AS DEFINED IN OTHER LEGISLATION.....	8
6.3. AS DEFINED BY OPERATIONAL PRACTICE	8
6.4. DISTINCTION BETWEEN RESERVED AND NON-RESERVED SECTORS.....	10
7. COST AND REVENUE ALLOCATION	10
8. REVENUE DETERMINATION AND TRADING VOLUME.....	11
9. COST ALLOCATION AND APPORTIONMENT RULES.....	12
10. HIERARCHY OF COSTS.....	13
11. REPORTING AND TRANSPARENCY.....	14
12. AUDIT OF ACCOUNTS AND CONFIRMATION OF COMPLIANCE	15
13. SUBMITTING COMMENTS	16

Foreword by Director

In February I published an Information paper [ODTR 01/09] about postal regulation and the consultation procedures I have put in place. This paper is one of three papers I am publishing to ascertain the views of interested parties about the key issues that will form the framework for postal regulation in Ireland.

Transparency of accounting is highly technical subject, but nevertheless very important. The requirement to produce separated accounts has two main purposes:

- (a) to ensure that profits earned from the provision of letter services reserved to An Post are not used to finance unfair competition in competitive parcels and non-postal services, and;
- (b) to enable the Director to assess An Post's compliance with the Tariff Principles and those relating to Terminal Dues Agreements¹.

I look forward to a significant response to this consultation exercise.

Etain Doyle,
Director of Telecommunications Regulation.
30 April 2001

¹ See regulations 10 and 11 of the European Communities (Postal Services) Regulations 2000 (SI No.310/2000).

1. Introduction

The EU “Postal Directive”² establishes a harmonised regulatory framework for postal services throughout the European Union and for securing improvements in the Quality of Service provided, and defines a decision-making process regarding further opening of the postal market to competition. It was transposed into national law last September by the European Communities (Postal Services) Regulations 2000 (SI No.310/2000 "the Regulations"). Under these Regulations the Director has been given responsibility for regulation of the postal sector.

Under Regulation 12(2) the Director is required to lay down Directions to Universal Service Providers³ regarding Accounting Separation, within their accounting systems, in order to achieve the transparency of accounting⁴ required by the EU Postal Directive.

In carrying out her functions under the Regulations, the Director is obliged to take into account the views of interested parties. Information Notice ODTR 01/09 sets out her procedure for taking these views into account.

The Director is now undertaking a consultation on the content and scope of the Directions to be issued to An Post.

The Director would welcome comments from interested parties in relation to any of the questions raised in sections 3 to 12. The closing date for receipt of comments is Friday 25th May 2001. Please see section 13 for details on submitting comments on this paper.

2. Background

2.1. General

Chapter 5 of the EU Postal Directive is entitled “*Tariff Principles and transparency of accounts*”. It consists of four articles:

Article 12 sets out the principles to be complied with when setting tariffs for the Universal Postal Service. This is the subject of a separate consultation paper which will be published shortly by the Director.

Article 13 sets out the principles to be respected in the agreements between universal service providers regarding intra-Community cross-border mail.

Article 14 sets out a framework to be adhered to in respect of the internal (management) accounting systems of universal service providers.

² 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. OJ L 15 21.1.1998, p. 14

³ The Regulations have designated An Post as a Universal Service Provider and the Minister for Public Enterprise may designate one or more additional postal service providers as a Universal Service Provider having an obligation to provide all or part of the Universal Service.

⁴ “whereas separate accounts.... 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)

Article 15 sets out the requirements with regard to preparation, audit and publication of the financial accounts.

There are two points to be made in respect of the above.

First, there is an explicit linkage between the tariff principles and the internal (management) accounting systems.

Secondly the article also sets out a framework within which all universal service providers' financial accounts must be prepared.

In transposing the Directive into Irish Law, the financial and internal (management) accounting requirements have been combined in Regulation 12. This regulation places the duty on the Director to issue Directions to ensure that there is the required transparency in the (financial and management) accounting systems of universal service providers.

2.2. Financial Accounts

Article 15 of the EU Postal Directive requires that the financial accounts of all universal service providers shall be prepared, audited and published in accordance with the Community and national legislation relevant to Commercial undertakings. The Directions which the Director issues must implement this requirement in Ireland.

The Companies Acts 1963 to 1999, and the Regulations to be construed as one with those Acts, are the principal national legislation, and they are informed by the relevant Community legislation.

The Companies Acts impose on An Post, and other universal service providers, a requirement to keep proper books of account which disclose with reasonable accuracy at any time the financial position of the company, and to publish financial statements for each financial period which give a true and fair view of the state of affairs of the company, and of the profit or loss for that period,

In the case of An Post there are additional requirements specified in Sections 32 and 33 of the Postal And Telecommunications Services Act, 1983. [See Annex A]

In compliance with the above An Post publishes a Balance Sheet for the Company and Consolidated Accounts (Profit & Loss, Balance Sheet, Cash Flow Statement and Value Added Statement) for the An Post Group excluding An Post National Lottery Company.

Turnover for each of the main areas of business activity (Letters, Post Offices, SDS and Other Services) is disclosed by way of a note to the accounts, in compliance with SSAP 25 'Segmental Reporting' and Article 43 section 1(8) of the Fourth Council Directive.⁵ "In the opinion of the Directors, fuller compliance with the disclosure requirements⁶ of SSAP 25 'Segmental Reporting' would be seriously prejudicial to the Group's interests."

The Regulations impose a requirement on a Universal Service Provider to keep separate accounts *within its accounting systems* for each of the services within the reserved sector on

⁵ The Fourth Council Directive of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies (78/660/EEC) (OJ No L 222, 14. 8. 1978, p. 11)

⁶ SSAP 25 also requires disclosure of profit/loss and net assets for each main business activity.

the one hand and the non-reserved sector on the other. The importance of ring-fencing the accounts of independently managed business units operating in the competitive sector cannot be over-emphasised.

2.3. Management Accounts

In contrast to the financial accounts, there has hitherto been no legal obligation to maintain or use management accounting systems, although good corporate governance obviously requires this. The Regulations set out for the first time a legal obligation to maintain cost (management) accounting systems and require the Director to issue Directions about their methodology.

There is no obligation to publish the information arising from these requirements. However detailed accounting information arising from these Directions must be made available *in confidence* to the Director and the European Commission on request⁷.

The specific purposes for which this accounting information is needed relate to the function of the Director to monitor compliance with the tariff principles set out in Regulation 10 and the principles relating to Terminal Dues Agreements set out in Regulation 11.

As compliance with these principles is fundamental to the development of the internal market for postal services it follows that while the detailed accounting information must be treated in confidence there is a need for complete transparency in setting the principles which must be followed and in monitoring compliance.

The requirement⁸ to issue Directions setting out the form of separated accounts which Universal Service Providers must keep only arose when the Regulations were published in September 2000. An Post, as the only designated Universal Service Provider, was obliged by Decision 99/695/EC to introduce, by the end of 1999, a transparent cost-accounting system as provided for in Directive 97/67/EC. It will therefore have already initiated the development of its management accounting systems.

Accounting Separation – Consultation Issues

3. Financial Records and Accounting Systems – General Principles

The fundamental principle is that the financial records and accounting systems of any designated Universal Service Provider, and each of its subsidiaries, must be sufficiently detailed to ensure that:

- (a) all decisions are supported by sufficient data to enable management to satisfy themselves that they are complying with the Tariff Principles (Regulation 10), Terminal Dues Principles (Regulation 11) and Universal Service Obligations (Regulations 6);

⁷ Regulation 12(7)

⁸ Regulation 12(2)

- (b) the Director can monitor compliance with these principles;
- (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 the Director in accordance with Regulation 12(7) or 18(2) can be met; and
- (e) any request for information by the European Commission in accordance with Regulation 12(7) can be responded to promptly.

The financial records and accounting information must be maintained in sufficient detail to facilitate a detailed analysis, on a geographic or category of customer basis, for the purpose of calculating the cost of complying with the Universal Service Obligation and ensuring that tariffs are transparent and non-discriminatory.

Question 3	Are you aware of any particular issues under any of these headings which the ODTR should take into account in setting specific requirements on An Post to provide information in sufficient detail to meet the objectives set out in Section 3?
-------------------	---

4. Accounting for certain activities as separate companies

In order to achieve the transparency of accounting required by the EU Postal Directive the Directions to be issued under Regulation 12 will require that where any designated Universal Service Provider, or any of its subsidiaries, is divided for management purposes into separate business units, the accounting and financial records must enable each business unit to prepare separated accounts to the same standard as if each of the separate businesses was carried on by a separate company incorporated under the Companies Act 1963-1999.

The main impact of the above will be to require An Post to prepare separate balance sheets for the Letters and SDS (Parcels) divisions. Trade Debtors (£16m in total in 1999) will have to be assigned to the division which extended the credit and the cost of financing working capital will have to be reflected in the Profit & Loss Accounts. Fixed Assets (Buildings, Vehicles, Sorting Equipment, etc) will need to be shown in the Balance Sheet of the “Prime User”, with use by other divisions charged for on an arm’s length basis.

This proposal is consistent with the trend towards the separation of monopoly and competitive activities in regulated sectors, the approach taken by the Postal Services Commission in Britain, and the recent decision of the European Commission that the parcels division of Deutsche Post should be established as a legal entity separate from the letters division.

Question 4	<p>Is the suggestion that An Post be asked to produce separate accounts, each audited to the “true and fair” standard, for its letters and for its SDS (Parcels) divisions appropriate, having regard to its obligations?</p> <p>Bearing in mind the reasons for preparing these accounts the views of customers, user groups, An Post and competing postal service providers would be most welcome.</p>
-------------------	--

5. Inter-Company and similar Transactions

Inter-Company Transactions between a designated Universal Service Provider and its subsidiaries or associated companies must take full cognisance of the Tariff, Terminal Dues and Universal Service Obligation principles. In this regard particular attention must be paid to ensuring that payments / charges are calculated on an arm’s length basis, and in a transparent and non-discriminatory manner.

This could be assessed through market testing, benchmarking and/or against a “geared to costs” test.

For example when parcels are delivered by a postman employed on Letter or Combined deliveries, the Letters Division would charge SDS a “per item” delivery fee, which covers the appropriate share of the delivery postmen’s wages, petrol and other non-pay costs, and a share of the depreciation/financing costs for the buildings, vehicles etc used. This transfer “charge” should be consistent with the price they would charge to any competitor of SDS who wished to use An Post’s Letter network to deliver parcels.

The same principle must also be applied in respect of transactions within the same company but affecting services in the commercial⁹ area. For example stamps “sold” to the Philatelic service for use on First Day Covers or in other philatelic products must be charged in the accounts at the same rate as the stamps sold to philatelic dealers.

Question 5	<p>Is it appropriate to account for the “inter-company” transactions as a transfer price subject to audit and scrutiny by the regulator, and with the proviso that the same basis of charging must be offered to any competitive service provider?</p> <p>Or should the transactions be dealt with in the costing systems only, as a cost apportionment issue? [see section 10]</p>
-------------------	---

6. Definition of “Service”

6.1. General

The Regulations, and the general principles set out above, require separate accounts to be kept for “each of the services within the reserved sector on the one hand and the non-reserved sector on the other.” The Regulations, however, do not define what is meant by “service”. Furthermore, the definition of services should be considered in two different contexts. Firstly, in the revenue and cost accounting systems of the Universal Service Provider what level of

⁹ Services that are outside the universal service obligation, and not reserved to An Post.

separation and detail is required? This needs to be viewed in terms of the requirement to gear price to costs. Secondly, for financial reporting of individual services what level of aggregation of services may be appropriate?

The following is proposed as a definition of a “service” for the purpose of accounting separation and in particular the Directions to be issued under Regulation 12(2):

“Any service provided by An Post which involves the use of the public postal network as defined in the Regulations and which

- (i) 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 which*
- (ii) 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.”

6.2. As defined in other Legislation

Section 70 of the Postal And Telecommunications Services Act, 1983 (No. 24/1983), as amended, makes provision for charges and other terms applicable to services and provides that An Post may make a Scheme as respects “*any of the postal services provided by it.*” Notwithstanding this some of the services provided by An Post will not be provided under a scheme, but under individual agreements (contracts) negotiated with individual groups of customers.

Section 12 of the 1983 Act sets out the principal objects to be included in the memorandum of the company under four groupings:

Postal services

Remittance services

Counter services

Consultancy, Training services etc

The text of both Sections is set out at Annex B.

6.3. As defined by Operational practice

Using the statutory definition above one of the main services provided by An Post is its Inland Letter Service.

The tariff for this service is set out in the Inland Post Amendment (No. 57) Scheme 1998 (SI No 129 of 1998) as follows:

Limit of Weight	Charge
25g	30p
50g	35p
100g	45p
250g	70p
500g	115p
1 Kg (Flats)	180p
1 Kg (Packets)	300p
1.5kg	400p
2Kg	500p
Each extra 500g	100p

While the tariff for the Inland Letter Service is presented as if it was a single service, operationally it is handled in separate streams, each with their own accountable costs:

- (i) POP (Post Office Preferred) letters, those that can be machine sorted, with dimensions not exceeding 235mm x 162 mm (C5).
- (ii) “Flats” – A4 type envelopes etc with dimensions not exceeding 40 cm x 30 cm x 2.5 cm.
- (iii) “Packets” – items exceeding 40 cm x 30cm x 2.5cm.

By comparison, a number of countries are now presenting their letter services as three or four separate services, for example:

(i) Switzerland:

Standard Letter	- <B5	<20mm	<100g
Midi Letter	- <B5	<20mm	<250g
Big Letter	- <B4	<20mm	<500g
Maxi Letter	- <B4	<50mm	<1kg

Standardbrief	<235 mm x 125 mm x 5mm	<20g
Kompakbrief	<235 mm x 125 mm x 10mm	<50g
Grossbrief	<353 mm x 250 mm x 20mm	<500g
Maxibrief	<353 mm x 250 mm x 50mm	<1kg

(ii) Germany:

Lettres Standard	<235 mm x 162 mm x 5mm	<50g
Lettres non-Standard	<340 mm x 250 mm x 20mm	<500g
Maxi-lettres	<600 mm x 250 mm x 50mm*	<2kg

* all three dimensions not to exceed 900mm, and max for any one dimension 600m – various combinations possible.

Another issue that needs to be taken into account is that in some instances the tariffs specify that a fee should be paid “in addition to Ordinary Postage”. This raises the issue as to whether in such cases there are two separate services involved or one. Each case will have to be judged on its merits, but to take one example – the Registered Letter Service – there would seem to be an argument for regarding this as one service, quite distinct from the ordinary

Letter Post Service, in that during their transit through the public postal network registered letters receive special handling at all points and therefore incur specific costs.

6.4. Distinction between Reserved and Non-Reserved Sectors

The Regulations also require a distinction to be drawn between services within the Reserved Sector and within the Non-Reserved Sector.

The Reserved sector is defined in Regulation 9(1) as follows:

“The services which shall be reserved for An Post as a universal service provider shall be the clearance, sorting, transport and delivery of items of domestic correspondence, cross-border and direct mail, whether by accelerated delivery or not, the price of which is less than five times the domestic public tariff for an item of correspondence in the first weight step of the fastest standard category, provided that they weigh less than 350g”

This is a legal definition which is not reflected in An Post’s operating procedures. For example the Inland Letter Service falls within both the Reserved Sector and the Non-Reserved Sector. From an accounting point of view the issue to be considered is whether such services should be accounted for as one service or two (ie one in the Reserved sector, one in the Non-Reserved sector). If it is accounted for as a single service there is a need to devise a set of rules to determine how revenue and costs should be separated between the reserved and non-reserved areas.

Question 6	<p>Do you agree with the Director’s proposed definition of “service” for accounting separation purposes as set out in section 6.1.</p> <p>If you believe that a definition of “service” that would result in a greater or lesser number of “services” should be adopted please say on what basis you would define the services, bearing in mind the practicalities of ascertaining the accounting information.</p>
-------------------	--

7. Cost and revenue allocation

The Regulations require Universal Service Providers to keep accounts “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.”

Within the postal sector there are significant difficulties inherent in producing robust accounting data to the level of services, given the substantial joint and common costs that need to be allocated/apportioned. This is further complicated in the case of the traditional letters business by the use of stamps and franking machine credits, which cannot be directly traced to their use for specific services or even retention by users for later use.

The Direction will need to specify in some 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. Another aspect that must be taken into account is that, as mentioned in paragraph 6.4, letter

services offered by Universal Service Providers do not neatly fall into either the “reserved” or “non-reserved” sectors.¹⁰

The Director proposes to require a Universal Service Provider and each subsidiary thereof to maintain an accounting manual setting out a detailed analysis of the procedures and policies being used in the preparation of its management accounts. The manual should be reviewed annually to ensure that its contents reflect current business organisation.

The manual, and any revision thereof, would be subject to the approval of the Director.

Question 7	Do you agree with the Director’s proposals to require a universal service provider to document the procedures and policies being used in the preparation of its management accounts and to obtain her approval to these?
-------------------	--

8. Revenue Determination and Trading Volume.

The accounting manual referred to in section 7 should specifically identify:

- (i) the basis on which the Revenue of individual services is identified;
- (ii) the extent to which this is based on estimates and sampling;
- (iii) the proportion of total revenues and total costs for each service which are based on sampling/estimation; and
- (iv) the frequency and statistical accuracy of each sampling process.

The introduction of postage stamps and a uniform rate of postage, as part of the Post Office Reforms of 1837-1840 were intended to reduce administrative costs. But the system does not automatically generate reliable information about the volume of mail being handled in the network, and of more importance, details about its characteristics, weight, size and the service required.

While some of the larger customers use the Ceadúnas system (which enables details of the service and characteristics of the items to be identified) the majority of letters are paid for by stamps or franking machine. The only figure currently recorded by An Post is the total value of stamp sales, and credits to franking machines. It is therefore necessary to first determine the value of sales for each service/item characteristic, and then use this to calculate the volume, using statistically reliable sampling.

The directive will need to specify the level of statistical reliability to be achieved. Factors to be taken into consideration include the accuracy currently achieved and the cost of securing improvement, subject of course to the necessity to ensure that the financial information produced is “fit for the purpose”.

¹⁰ Information published by the UK Regulator shows that 3% by value of Consignia’s letter services fall entirely within the reserved sector, 7% by value fall entirely outside the reserved sector and 90% straddle both sectors.

Question 8.1	<p>The views of interested parties are sought as to the level of statistical reliability, eg +/- 1% at the 95% Confidence Level, that should be specified.</p> <p>Suggestions about how recent technological advances can be utilised to improve the level of information obtainable would be most welcome.</p>
---------------------	---

In contrast there appears to be good quality information on the volume of parcels handled throughout the network, and a significant proportion of Revenue can be directly identified.

Question 8.2	<p>The views of interested parties are sought on the desirability of phasing out the use of stamps / franking machines for services other than letters – or conversely the introduction of different stamps for different purposes (eg parcels).</p>
---------------------	--

9. Cost Allocation And Apportionment Rules

An Post's current accounting systems appear to enable the cost of the various aspects of operating the network to be identified with reasonable accuracy, and one of the key issues to be addressed in the accounting manual referred to in section 7 should be the basis on which the costs of particular activities should be apportioned between services. The Direction will specify that the manual must contain a schedule showing how each individual revenue and cost category is treated, together with a full description of supporting data.

The fundamental principle is that the accounting systems must operate on the basis of consistently applied and objectively justifiable criteria that allocate cost and revenue data to each of the separate services in such a manner that –

- (i) cost and revenue data which can be directly assigned to a particular separate service shall be so assigned;
- (ii) common cost and revenue data, that is cost and revenue data which cannot be directly assigned to a particular separate service, shall be allocated as follows:
 - whenever possible, common cost and revenue data shall be allocated on the basis of direct analysis of the origin of the costs and revenues themselves;
 - when direct analysis is not possible, common cost and revenue categories shall be allocated on the basis of an indirect linkage to another cost or revenue category or group of cost or revenue categories for which a direct assignment or allocation is possible; the indirect linkage shall be based on comparable cost or revenue structures;
 - when neither direct nor indirect measures of cost or revenue allocation can be found, the cost or revenue category shall be allocated to each of the separate services 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 services and, on the other hand, to all the other services,

As an example the cost of delivery to residential and business customers will need to be apportioned between the various services that use this aspect of the network, viz:

Domestic “POP” ¹¹ Letters, Domestic Packets ¹³ , Incoming International “Flat” letters, Registered Letters.	Domestic “Flat” ¹² Letters, Incoming International “POP” letters, Incoming International Packets, Swiftpost & Publicity Post, Items delivered on behalf of the SDS (Parcels) Division and other service providers etc.
--	---

The Direction will require that this should be done on the basis of volumes, “weighted” by factors which reflect the different impact of each item on the cost of delivery. For example in some cases the postman or postwoman will have to knock and wait for a response, either because he or she has to get a signature on delivery or the item is too large for the aperture, while in others it can simply be posted through the aperture.

The weighting factors will of course be different for each operational process, as will be the range of services that use that process. These will be subject to approval by the Director when the accounting manual is submitted to her – see section 7.

It must be borne in mind that letter services fall into the reserved area, the universal services area and the commercial area. In each of these areas some of the services provided are subject to real “de facto” competition, while others are characterised by the absence of competition.

Question 9.1	Do you agree with the Director’s proposals for apportioning the cost of the main letter delivery network between the various reserved, universal service obligation and commercial services? If not, please give your reasons/outline alternatives.
---------------------	---

Parcel Services, on the other hand, only fall into the Universal Service and Commercial areas; in most cases there is competition; and in many cases An Post is not the “market leader”. While the same principles will be applicable to revenue determination and cost allocation/apportionment, the better quality of the Volume/Revenue information will make the apportionment process more accurate.

The Director proposes to require that the accounting manual contain a schedule showing how each individual revenue and cost category is treated, and a full description of supporting data.

Question 9.2	Do you agree that the cost accounting criteria to be applied must be documented by the service provider and approved by the Director?
---------------------	---

10. Hierarchy of costs

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

- (i) Sale of stamps/sale of the service

¹¹ Post Office Preferred, generally envelopes up to C5 size (235 mm x 162 mm)

¹² Dimensions not exceeding 400 mm x 300 mm x 25 mm

¹³ Dimensions exceeding 400 mm x 300 mm x 25 mm

- (ii) Collection
- (iii) Outward sorting
- (iv) Transport
- (v) Inward sorting
- (vi) Preparation
- (vii) Delivery

The hierarchy of accounts should also distinguish between categories of costs (e.g. pay and non-pay expenditure). Accounting items not involving the movement of funds [e.g. depreciation] should also be separately identified.

Question 10	Do you agree that the hierarchy of costs for each service as suggested here is appropriate? If not, please give your reasons and suggest alternatives.
--------------------	--

11. Reporting and transparency

The Direction will require that management accounts, disaggregated to the level of services, should be provided to the ODTR in confidence, as required by the Regulations. These would include:

1. Profit and loss accounts and balance sheets to be prepared annually for the Letters, SDS (Parcels) and Non Postal (Counters and miscellaneous) businesses of An Post. The Letters accounts should distinguish between services wholly or partly in the Reserved Area and those outside. These accounts to show data for the last complete Financial Year, the previous Financial Year and the Budget for the current Financial Year, and be fully reconciled to the published financial accounts of the Company.
2. A profit and loss account to be produced annually for each letter and parcel service. These to be fully reconciled to the profit and loss accounts at 1 above.
3. An annual report based on the above estimating the cost of complying with the Universal Service Obligations.
4. A detailed report to be prepared annually in connection with item 2 above, or whenever prices are changed (or An Post applies for permission to increase prices within the reserved area), comparing the existing and/or proposed price with a detailed estimate of the costs of providing the service.
5. Such Ad hoc reports as may be required from time to time.

The accounts to be produced annually should be submitted no later than three months after the expiry of each financial year; in the first year of implementation of these procedures (i.e. in respect of the financial statements for the year ended 31st December 2000) the appropriate service financial statements shall be provided no later than three months after finalisation of the statutory accounts, or the issue of the Direction, whichever is the later.

Any accounts or accounting statements prepared under this paragraph shall identify any deviation from the accounting policies used in a Universal Service Provider's statutory accounts.

Question 11	The views of interested parties are sought as to the reasonableness of the timescale proposed, and whether there may be fewer or other reports that should be produced on a regular basis.
--------------------	--

12. Audit of Accounts and Confirmation of Compliance

The Regulations require An Post to engage auditors to verify compliance with the Direction and to have an auditor's statement of compliance published in its annual report. The Direction will restate this requirement.

So far as the production of a profit and loss account for each service is concerned there is no overriding reason why the auditor need be the same person as the auditor of the statutory financial accounts. Indeed, given that the nature of the accounting process is different, there may be circumstances when it is more appropriate to appoint a different auditor. The Direction will therefore require An Post to consult with the Director before appointing auditors for this purpose.

Question 12	The views of interested parties are sought as to the desirability of appointing different auditors for a Universal Service Providers financial accounting and management accounting /costing systems.
--------------------	---

13. Submitting comments

The consultation period will run from Monday 30th April to Friday 25th May 2001 during which period the Director welcomes written comments on the issues raised in this paper. Having analysed and considered the comments received, it is the intention of the Director to issue a Direction to An Post in July 2001. The ODTR will publish the names of all respondents and may summarise the responses received as part of its report on the consultation.

All comments are welcome, but the task of analysing responses will be simplified if comments are referenced to the relevant question numbers from this document.

In order to promote further openness and transparency, the ODTR will make copies of the comments available for public inspection at its offices, excluding commercially sensitive information. Where material that is commercially sensitive is included in a response, this should be clearly marked as such and included in an Annex to the response.

All responses pursuant to this consultation should be clearly marked "Reference: Submission re ODTR 01/29" and sent by post, facsimile or e-mail to:

Ms. Jean Bonar
Office of the Director of Telecommunications Regulation
Irish Life Centre
Abbey Street
Dublin 1
Ireland

Phone: + 353 1 804 9600 Fax: + 353 1 804 9665 Email: bonarj@odtr.ie

To arrive on or before 5.00 p.m., on Friday 25th May 2001.

Apart from acknowledging responses, the Director regrets that, during the consultation period, her Office will be unable to enter into correspondence with persons contributing comments on this consultation paper.

Office of the Director of Telecommunications Regulation

Monday 30th April 2001.

This consultation paper does not constitute legal, commercial or technical advice. The Director is not bound by it. The consultation is without prejudice to the legal position of the Director and to her rights and duties under legislation.

Extract from Postal and Telecommunications Services Act, 1983.

32 *Accounts and audits.*

32.—(1) Each company shall keep, in such form as may be approved of by the Minister with the consent of the Minister for Finance, all proper and usual accounts of all money received by or expended by it, including a profit and loss account and a balance sheet, and, in particular, shall keep in such form as aforesaid all such special accounts as the Minister may from time to time direct.

(2) Accounts kept in pursuance of this section shall be submitted annually by the company to an auditor for audit and, immediately after the audit, a copy of the profit and loss account and of the balance sheet and of such other (if any) of the accounts as the Minister may direct and a copy of the auditor's report on the accounts shall be presented to the Minister who shall cause copies thereof to be laid before each House of the Oireachtas.

33 *Annual report and furnishing of information to Minister.*

33.—(1) As soon as may be after the end of each accounting year each company shall make a report to the Minister of its activities during that year and the Minister shall cause copies of the report to be laid before each House of the Oireachtas.

(2) After such period as the Minister may determine, every annual report shall include information, in such form as the Minister may direct after consultation with the company and with the consent of the Minister for Finance, regarding the cost-effectiveness of the operations of the company.

(3) Each company shall, if so required by the Minister, furnish to him such information as he may require in respect of any balance sheet, account or report of the company or in relation to the policy and operations of the company other than day-to-day operations.

Extract from Postal and Telecommunications Services Act, 1983. (as amended)

12 Principal objects of postal company.

12.—(1) The principal objects of the postal company shall be stated in its memorandum of association to be—

(a) to provide a national postal service within the State and between the State and places outside the State,

(b) to meet the industrial, commercial, social and household needs of the State for comprehensive and efficient postal services and, so far as the company considers reasonably practicable, to satisfy all reasonable demands for such services throughout the State,

(c) to provide services by which money may be remitted (whether by means of money orders, postal orders or otherwise) as the company thinks fit,

(d) to provide counter services for the company's own and Government business and, provided that they are compatible with those services and with the other principal objects set out in this subsection, for others as the company thinks fit, and

(e) to provide such consultancy, advisory, training and contract services inside and outside the State as the company thinks fit.

(2) Nothing in this section shall prevent or restrict the inclusion among the objects of the company as stated in its memorandum of association of all such objects and powers as are reasonably necessary or proper for or incidental or ancillary to the due attainment of the principal objects aforesaid and are not inconsistent with this Act.

(3) The company shall have power to do anything which appears to it to be requisite, advantageous or incidental to, or which appears to it to facilitate, either directly or indirectly, the performance by it of its functions as specified in this Act or in its memorandum of association and is not inconsistent with any enactment for the time being in force.

70 Charges and other terms applicable to services.

70.—(1) Subject to this Act, the company may make, as respects any of the postal services provided by it, a scheme providing for—

(a) either or both of the following—

(i) all charges which (save in so far as may otherwise be agreed between the company and a person availing himself of any such service) are to be made by it,

(ii) the other terms and conditions which (save as aforesaid) are to be applicable to those services,

(b) the prohibition of transmission of objectionable matter.

(2) The company shall not increase any charge under a scheme relating to postal services reserved to An Post under this section without the concurrence of the Director.

(3) A scheme made under this section may amend or revoke any previous scheme made under this section and any regulations to which section 72 (1) relates.

(4) A scheme under this section shall come into operation on such day as is specified therein.

(5) Every scheme under this section shall be published as soon as may be.