



EUROPEAN COURT OF AUDITORS

Special Report No 11

2013

GETTING THE **GROSS NATIONAL INCOME (GNI)** DATA
RIGHT: A MORE STRUCTURED AND BETTER-FOCUSED
APPROACH WOULD IMPROVE THE EFFECTIVENESS OF
THE COMMISSION'S VERIFICATION

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(pursuant to Article 287(4), second subparagraph, TFEU)

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Special Report No 11 // 2013

More information on the European Union is available
on the Internet (<http://europa.eu>).

Cataloguing data can be found at the end of this publication.
Luxembourg: Publications Office of the European Union, 2013

ISBN 978-92-9241-405-4
doi:10.2865/36059

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Printed in Luxembourg

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REPLY OF THE COMMISSION

ABBREVIATIONS

AAR(s): annual activity report(s)

BoP: balance of payments

BR(s): business register(s)

CFC: consumption of fixed capital

CMFB: Committee on Monetary, Financial and Balance of Payments Statistics

CoE: compensation of employees

COSO: Committee of Sponsoring Organisations of the Treadway Commission

EDP: excessive deficit procedure

ESA95: European System of National and Regional Accounts

FISIM: financial intermediation services indirectly measured

GDP: gross domestic product

GFCF: gross fixed capital formation

GG: general government

GIAQ: GNI Inventory Assessment Questionnaire

GNI: gross national income

GOS: gross operating surplus

GVA: gross value added

HBS: Household Budget Survey

HH: households

IAC: internal audit capability (of a Commission service)

IC: intermediate consumption

ICS: internal control standards

NACE (Rev. 1): Statistical Classification of Economic Activities in the EC ('Nomenclature générale des activités économiques dans les Communautés européennes'). 'Rev. 1' was the framework applicable to the years under review (2002 to 2007).

NOS: net operating surplus

NPI: non-profit institutions

NPISH: non-profit institutions serving households

NSI(s): national statistical institute(s)

OR: own resources of the European Union

PI: property income

PIM: perpetual inventory method

PT: process tables

RoW: rest of the world

SBS: Structural Business Statistics

TFEU: Treaty on the Functioning of the European Union

TOR: traditional own resources

VA: value added

GLOSSARY

Assessment reports: Eurostat's assessments made on the quality of Member States' GNI data, whose underlying components are compiled in accordance with the GNI inventory.

Direct verification: Control approach introduced in 2007 by Eurostat to confirm that the description of sources and methods in the GNI inventory reflects the compilation practice actually applied.

GDP: GDP is the final result of the production activity of resident producer units (in the economic territory) and can be defined in three ways:

- (a) **production approach:** the sum of gross value added of the various institutional sectors (non-financial corporations, financial corporations, general government, households and non-profit institutions serving households) or the various industries plus taxes less subsidies on products;
- (b) **expenditure approach:** the sum of final uses of goods and services by resident institutional units (actual final consumption and gross capital formation) plus exports and minus imports of goods and services;
- (c) **income approach:** the sum of uses in the generation of income account of the total economy (compensation of employees, taxes on production and imports less subsidies, gross operating surplus and mixed income of the total economy).

GNI: GNI is GDP minus primary income (including compensation of employees, taxes and subsidies on production and imports, and property income) payable by resident units to non-resident units plus primary income receivable by resident units from non-resident units.

GNI Committee: A committee made up of Member States' representatives and chaired by Eurostat which assists the Commission in its verification work.

GNI reservations: These are notified by the Commission (or exceptionally by Member States) to allow Member States' GNI data for a given year to be revised after the statutory 4-year cut-off point. **General reservations** cover the compilation of all GNI components of a Member State, whereas (country or transversal) **specific reservations** cover the estimate of discrete GNI components.

GIAQ: The GNI Inventory Assessment Questionnaire is the main tool used by Eurostat to verify the compliance of the GNI inventory with ESA95.

GNI inventory: Description of the procedures (methods) and basic statistics (sources) used by Member States to make estimates for the various GNI components.

GNI questionnaire(s): Data for the aggregate GNI and its components provided annually by Member States for the calculation of own resources.

GNI quality report(s): The GNI questionnaire is accompanied by a report showing how the aggregate is obtained, and describing any main changes in the procedures and basic statistics compared to previous years.

In-depth verification: This term is used to refer to the tests carried out by the Court, as opposed to direct verification, which refers to the work carried out by the Commission. They are similar even though the scope and objectives of 'in-depth verification' are broader than those of 'direct verification'.

Opinion of the GNI Committee: Annual opinion issued by the GNI Committee on the appropriateness of Member States' GNI data for own resource purposes.

Responsibilities within the Commission: In the context of the management of GNI-based own resources, DG Budget is the authorising officer for the recovery of revenue. However, the verification of GNI data provided by Member States for the calculation of own resources is carried out by Eurostat.

The terms 'DG Budget' and 'Eurostat' are used when reference is made to the work of each specific Commission service. Where reference is made to the work of both DG Budget and Eurostat or the Commission in general, the term 'Commission' is used instead.

Revision of GNI data: Updating of GNI data necessitated by: the correction of mistakes, an update of statistical sources, changes in the reference or benchmark year or modifications of the national accounts' conceptual framework (e.g. NACE Rev. 2). The latter two situations are considered **major regular revisions (or benchmark revisions) and major occasional revisions** respectively.

EXECUTIVE SUMMARY

I. Member States' gross national income (GNI) is the basis for the calculation of the most significant share of the revenue in the EU budget. Revenue derived from this source has increased from around 50 % of the budget in 2002 (46 billion euro) to 70 % in 2012 (98 billion euro).

II. GNI is a macroeconomic aggregate whose compilation process should comply with ESA95. The Commission verifies GNI data provided by Member States in order to ensure that their contributions to the EU budget are correct. The GNI Committee assists the Commission in its verification work.

III. The Court's audit examined the effectiveness of the Commission's verification of GNI data for the years 2002 to 2007 used for own resource purposes. Such data became definitive in 2012. The audit determined the risks in compiling GNI and assessed the Commission's performance in addressing these risks.

IV. The Court's auditors applied a more structured verification than the Commission, focusing on a limited number of material and risky components. If the Commission applied a similar approach, this would require no increase in Eurostat staff dedicated to the verification of GNI data for own resource purposes.

V. The Commission completed its verification cycle in January 2012. There was an excessive use of general reservations and major revisions carried out by Member States between 2008 and 2011 were not sufficiently examined by the Commission.

EXECUTIVE SUMMARY

VI.

The Commission's verification can be expected to improve the quality of Member States' GNI data. However, the Court concludes that this verification was not sufficiently structured and focused for the following reasons:

- (a) **verification strategy/approach:** the Commission did not plan and prioritise its work in an appropriate way, as the risks were not appropriately assessed;
- (b) **verification process:** the Commission did not apply a consistent approach when carrying out its verifications in Member States resulting in particular in weaknesses in the performance of direct verification and a lack of criteria for setting country-specific reservations, and it did not carry out sufficient work at that level; and
- (c) **reporting:** the verifications have not been adequately reported.

VII.

The Court's audit found cases of material non-compliance with ESA95 or lack of quality of GNI estimates in terms of their reliability, comparability and exhaustiveness, which the Commission had not detected.

VIII.

The Court recommends in particular that:

- (a) the Commission carry out a structured and formalised planning and prioritisation exercise, reduce the duration of the verification cycle and limit the use of general reservations;
- (b) The Commission carry out a more focused verification of material and risky GNI components on the basis of risk assessment, paying particular attention to the exhaustiveness of GNI, where possible assess the potential impact or the amount at risk of its findings, and set materiality criteria for placing specific reservations;
- (c) The assessment reports on the Member States' GNI include a more complete, transparent and consistent overview of the results of the Commission's verifications; the annual opinions of the GNI Committee (i) include a clear assessment of whether the Member States' GNI data are appropriate for own resource purposes, (ii) comply with the requirements of the GNI regulation, and (iii) are appropriately used in the budgetary procedure as provided for in the own resources' regulation; the annual activity reports of DG Budget and Eurostat provide a true and fair view of the verification of Member States' GNI data, and of the management of GNI-based own resources.

INTRODUCTION

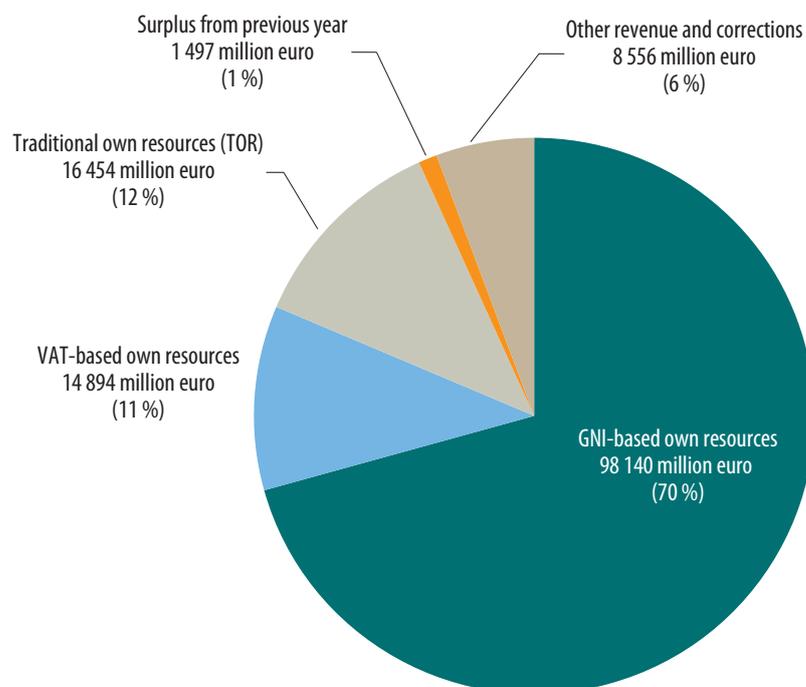
1. The EU budget is financed from own resources and other revenue. There are three categories of own resources¹: traditional own resources (customs duties collected on imports and sugar production charge, TOR), own resources calculated on the basis of value added tax collected by Member States, and own resources derived from Member States' gross national income (GNI) ('GNI-based own resources'). **Chart 1** shows the EU revenue budget for 2012. GNI-based own resources² is its main source.
2. After taking into account the total of TOR, VAT-based own resources and other revenue, the GNI-based own resources due is the amount needed to balance the budget. This is collected from each Member State according to its GNI. **Annex I** provides an overview of each Member State's contribution of GNI-based own resources for 3 indicative years: 2002, 2007 and 2010.

¹ Council Decision 2007/436/EC, Euratom of 7 June 2007 on the system of the European Communities' own resources (OJ L 163, 23.6.2007, p. 17) ('own resources' decision'), and Council Regulation (EC, Euratom) No 1150/2000 of 22 May 2000 implementing Decision 94/728/EC, Euratom on the system of the European Communities' own resources (OJ L 130, 31.5.2000, p. 1), as amended ('own resources' regulation).

² These include Chapters 14 'GNI' and 32 'GNI balances' of the budget.

CHART 1

EU REVENUE BUDGET 2012



Source: European Court of Auditors (based on the Commission's financial reports).

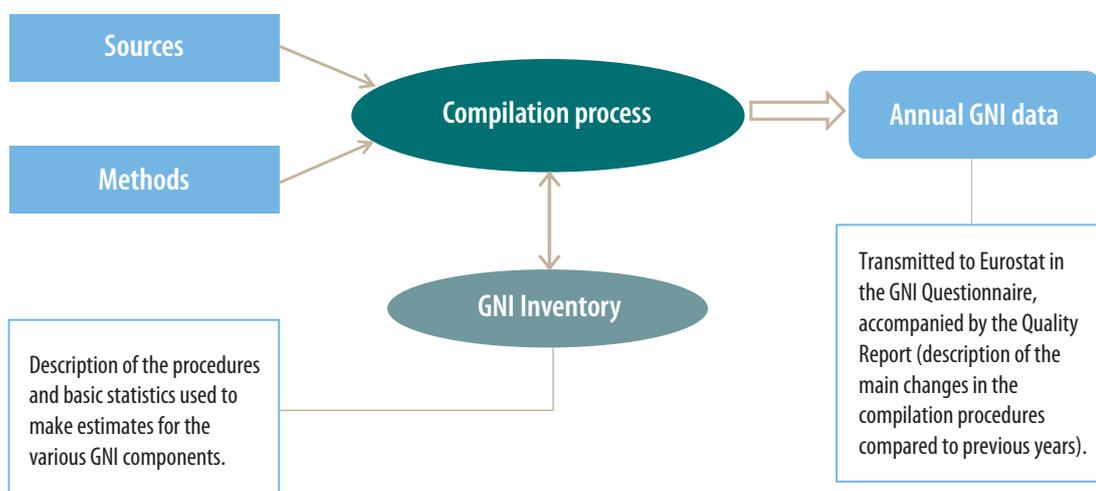
3. Any overstatement (or understatement) of GNI for a particular Member State — while not affecting the overall GNI-based own resources — has the effect of decreasing (or increasing) the respective contributions from the other Member States. **Annex II** provides an overview of the calculation of GNI-based own resources.
4. GNI data are macroeconomic aggregates resulting from Member States' statistical processes. This report sets out the Court's audit on the effectiveness of the Commission's verification of the GNI data used for own resource purposes. It assesses to what extent the verification work carried out by Eurostat was prioritised, determined whether the quality of Member States' GNI data needed to be improved and was reported adequately. In its Special Report No 12/2012³, the Court assessed whether the Commission and Eurostat had improved the process for producing reliable and credible European statistics.
5. The estimation of GNI includes a large number of different components to be measured using the best available statistical sources and methods. These compilation procedures should comply with the requirements of the European System of National and Regional Accounts (ESA95)⁴. It is a complex process. **Chart 2** shows the process of compiling national accounts from which GNI data are derived.

³ Special Report No 12/2012 Did the Commission and Eurostat improve the process for producing reliable and credible statistics? (<http://eca.europa.eu>).

⁴ Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community (OJ L 310, 30.11.1996, p. 1), as amended.

CHART 2

COMPILATION PROCESS OF NATIONAL ACCOUNTS



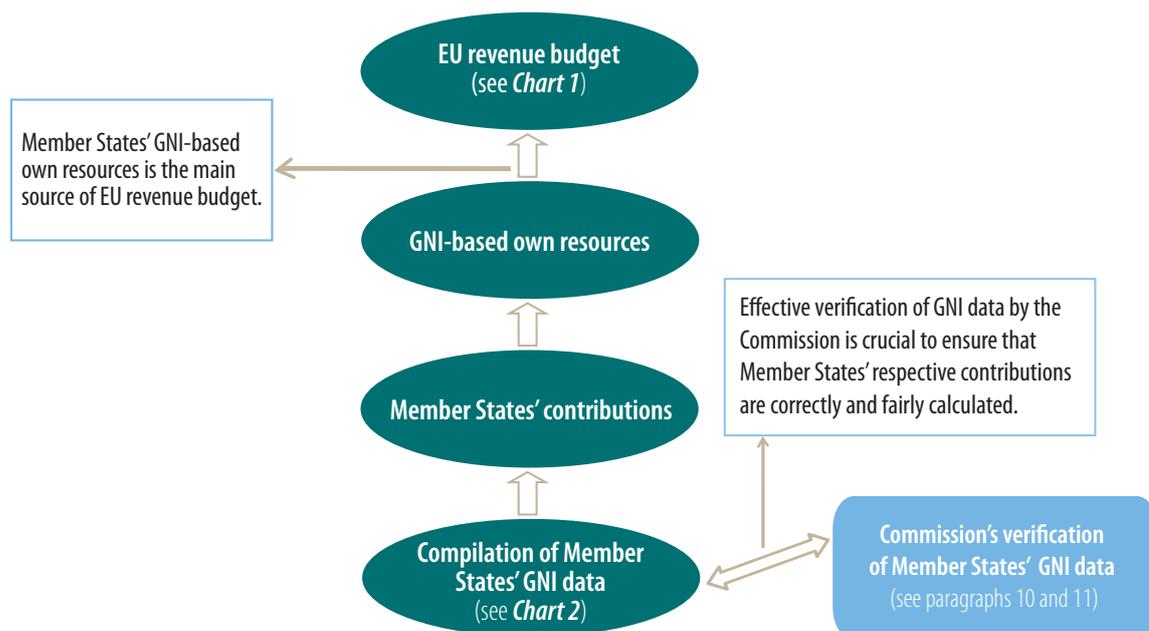
Source: European Court of Auditors (ECA).

6. Although GNI data necessarily involve a certain degree of inaccuracy due to the application of estimation techniques and judgement, their compilation is also subject to risks resulting from the use of sources and methods which may not appropriately measure the economic activities in accordance with ESA95 accounting rules⁵. For example, the use of incomplete or out-of-date sources weakens the quality of national accounts in terms of their reliability, comparability and exhaustiveness.
7. **Chart 3** shows the link between the compilation of GNI data and the calculation of GNI-based own resources, highlighting the importance of the Commission's verification process for the correct calculation and thus fair distribution of the individual Member State's contributions.

⁵ In particular those relating to production, expenditure and income, which are relevant for the estimation of the GNI components.

CHART 3

LINK BETWEEN GNI DATA AND THE CALCULATION OF GNI-BASED OWN RESOURCES



Source: ECA.

- 8.** The GNI regulation⁶ stipulates that the Commission should verify the sources and methods used by Member States to calculate GNI, which should be assessed with respect to reliability, comparability and exhaustiveness. The Commission should therefore review the compilation procedures applied by Member States for the estimation of GNI in order to assess whether these comply with ESA95. Effective verification of GNI data is crucial to ensure fairness.
- 9.** GNI data, and national accounts statistics in general, are important indicators for policymakers to take key decisions on fiscal and monetary policies. In addition, gross domestic product (GDP) and/or GNI aggregates are used for other purposes such as in the context of the excessive deficit procedure (EDP)⁷ and to allocate EU expenditure between Member States in the area of cohesion⁸.

VERIFICATIONS CARRIED OUT BY THE COMMISSION ON GNI DATA USED FOR OWN RESOURCES

RESPONSIBILITIES WITHIN THE COMMISSION AND THE ROLE OF THE GNI COMMITTEE

- 10.** DG Budget is the authorising officer by delegation for all own resources, whereas the verification of GNI data provided by Member States for the calculation of own resources is carried out by Eurostat.
- 11.** The Commission is assisted in its verification work by the GNI Committee which is composed of representatives from the Member States' national statistical institutes (NSIs) and chaired by Eurostat. This Committee has advisory powers including: the adoption of an annual opinion on the appropriateness of Member States' GNI data to be used for own resource purposes (see paragraph 15); the expression of views on methodological issues; and the interpretation of ESA95 in order to improve the compilation of GNI data.

⁶ Council Regulation (EC, Euratom) No 1287/2003 of 15 July 2003 on the harmonisation of gross national income at market prices ('GNI regulation') (OJ L 181, 19.7.2003, p. 1).

⁷ See Article 126 of TFEU and Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (OJ L 145, 10.6.2009, p. 1), as amended.

⁸ Interinstitutional agreement between the European Parliament, the Council and the Commission on budgetary discipline and sound financial management (OJ C 139, 14.6.2006, p. 1).

VERIFICATION WORK

- 12.** The verifications carried out by the Commission are based on a control framework set up by Eurostat and approved by the GNI Committee. For the examination of Member States' GNI data for the period 2002–10, this control framework is mainly based on the verification of the Member States' sources and methods used to compile GNI data ('GNI inventories').
- 13.** This work includes desk checks on the compilation procedures for all GNI components (the 'comprehensive approach') by means of the GNI Inventory Assessment Questionnaire (GIAQ)⁹. In addition, direct verification of one or two GNI components has also been performed since 2007. By means of this approach Eurostat aims to verify whether the description of sources and methods in the GNI Inventory¹⁰ reflects the compilation practice actually applied, without making its own estimation of GNI components. *Annex III* illustrates the cycle of the Commission's verification of Member States' GNI inventories.

⁹ This questionnaire includes 265 detailed questions to be addressed.

¹⁰ This includes also the process tables (PTs) providing a quantitative dimension of the GNI compilation process.

¹¹ See Article 5(2)(b) of the GNI regulation.

REPORTING REQUIREMENTS

- 14.** At the end of the verification cycle, Eurostat prepares assessment reports summarising its analysis of the quality of Member States' GNI data and including matters for improvement. These reports are presented to the GNI Committee and are used as a basis for the Commission to set specific reservations. The **Box** explains what GNI reservations are and when they are used.
- 15.** The GNI Committee examines the GNI questionnaires and quality reports transmitted by Member States each year. It issues an opinion on the appropriateness of the GNI data for own resource purposes 'with respect to reliability, comparability and exhaustiveness taking into account the cost–benefit principle'¹¹.

- 16.** The GNI Committee opinion is taken into consideration by DG Budget in the context of the calculation of the adjustment to balances of GNI-based own resources. Only changes to GNI data of previous years subject to this opinion can give rise to budgetary adjustments.
- 17.** As set out in the financial regulation¹², the authorising officer by delegation reports on the performance of his/her duties in the form of an annual activity report (AAR). The financial regulation requires that the AAR indicate the results of operations by reference to the objectives set, the risks associated with these operations, the use made of the resources provided and the efficiency and effectiveness of the internal control system. The AARs of DG Budget and Eurostat report on the management of GNI-based own resources.

¹² See Article 60(7) of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities (OJ L 248, 16.9.2002, p. 1), as amended.

BOX

GNI RESERVATIONS

GNI reservations are a tool enabling GNI data of a given year to be revised after the statutory 4-year cut-off point. Their setting is notified by the Commission (or exceptionally by Member States) in accordance with Article 10(7) of the own resources' regulation.

General reservations cover the compilation of all GNI components of a Member State, and have been mainly used where Eurostat's assessment of the GNI Inventory takes longer than 4 years. When Eurostat's verification is complete, these reservations are lifted and replaced by specific reservations.

Specific reservations cover the estimate of discrete GNI components. These are set on a Member State and are lifted as soon as Eurostat confirms that the required improvements in the compilation procedures are implemented in national accounts by the NSIs.

AUDIT SCOPE, APPROACH AND METHODOLOGY

18. The Court's audit examined whether the Commission's verification of GNI data used for own resource purposes was well structured and focused. It covered the Commission's verification of the EU-25¹³ Member States' GNI data for the period 2002–07¹⁴, focusing on the Eurostat verification of GNI Inventories. This verification cycle was completed in January 2012.

¹³ For the EU-10 the GNI data only refer to the period 2004–07. Eurostat's verification of GNI for Bulgaria and Romania was only completed in January 2013, so these Member States are excluded from the audit scope.

19. The Court's assessment addressed the three following questions:

- (a) Did Eurostat appropriately plan and prioritise its verification work?
- (b) Did Eurostat examine effectively the quality of GNI data in respect of reliability, comparability and exhaustiveness? and
- (c) Were Eurostat's verifications adequately reported (in terms of completeness, transparency and consistency)?

¹⁴ GNI data for the years 2008–10 are excluded from the scope of the Court's audit as they had not been closed when the audit started.

20. The audit concentrated on Eurostat's verification work (see paragraph 30). The Court reviewed the files of a sample of 10 Member States (see **Annex I**). Audits on-the-spot audits were carried out by the Court in five of these Member States. An overview of the audit approach and methodology is presented in **Annex IV**.

¹⁵ Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework which is used by the Commission as a reference for its supervisory and control systems.

21. The audit criteria used for assessing the Commission's performance are based on a set of good practices of verification arrangements drawn up by the Court taking into account the EU rules and the relevant internal control principles¹⁵.

¹⁶ This term is used to refer to the tests carried out by the Court, as opposed to direct verification, which refers to the work carried out by the Commission. They are similar even though the scope and objectives of 'in-depth verification' are broader than those of 'direct verification'. Neither control procedure includes the calculation of its own estimate of GNI components.

22. These practices include notably the following:

- qualitative risk assessment and cost–benefit analysis in prioritising and planning the verification;
- the in-depth verification¹⁶ of selected risky and material GNI components;
- the completeness, transparency and consistency in the reporting on the verification work carried out.

23. They are described in more detail in a consolidated framework, the 'Court's control model' (see **Annex V**).

OBSERVATIONS

THE COMMISSION'S VERIFICATION CAN BE EXPECTED TO IMPROVE THE QUALITY OF MEMBER STATES' GNI DATA, HOWEVER...

- 24.** The Commission visited EU-25 Member States and analysed their GNI Inventories between the beginning of 2007 and the beginning of 2012. This resulted in the setting of numerous specific reservations which can be expected to improve the quality of Member States' GNI data.

¹⁷ See Article 5(2)(b) of the GNI regulation.

... THE VERIFICATION WAS NOT SUFFICIENTLY STRUCTURED AND FOCUSED BECAUSE ...

- 25.** The following observations result from the use by the Court of good practices in its verification of GNI data (see paragraphs 21 to 23). The former are presented in terms of the verification strategy/approach, the verification process and the reporting.

... EUROSTAT DID NOT APPROPRIATELY PLAN AND PRIORITISE ITS WORK

- 26.** A successful verification approach requires planning to ensure that resources focus on the highest priority areas. This is particularly important in a very complex statistical area such as national accounts, where an adequate assessment of the compilation process based on the comprehensive approach is not possible because of the limited resources available.
- 27.** The Court used a 'focused approach', according to which the criteria to prioritise the areas for verification are based on a qualitative risk assessment of the compilation of national accounts (see paragraphs 31 and 32) and a cost-benefit analysis (see paragraphs 33 to 36).
- 28.** In the Court's view, the Commission did not appropriately plan and prioritise its verification of Member States' GNI data by applying the cost-benefit principle, which would take into account the materiality of each GNI component and a qualitative assessment of the associated risk in its compilation. Eurostat did not report clearly and in a timely manner to the GNI Committee on cases where the cost-benefit principle is considered to apply¹⁷.

- 29.** In August 2011, the internal audit department¹⁸ of Eurostat also raised concerns about the lack of consideration of risk in planning the verifications. It recommended the implementation of a risk matrix for planning, including the selection of components for direct verification and the identification of issues by comparative analysis between Member States and over time. This recommendation had not been implemented by September 2013.
- 30.** In order to demonstrate whether its focused approach would give added value to the effectiveness of the Commission's verification system, the Court compared the results of Eurostat's verification with its own audit work in the 10 selected Member States, as set out in the following sections (see paragraphs 37 to 76).

¹⁸ The internal audit capability (IAC).

RISK ASSESSMENT OF GNI COMPONENTS NOT APPROPRIATELY CARRIED OUT

- 31.** The Court carried out a qualitative risk assessment for the 10 selected Member States mainly based on the qualitative description of sources and methods included in the GNI inventories. This identified those GNI components whose compilation was subject to a higher risk of non-compliance with ESA95.
- 32.** The risk assessment matrix used and the results of its application are presented in **Annex VI** and **Annex VII** respectively. Eurostat did not carry out a structured exercise of this kind.

COST-BENEFIT ANALYSIS NOT PROPERLY CARRIED OUT

- 33.** The Court carried out a cost-benefit analysis to plan and prioritise its audit work. This was based on a qualitative risk assessment which also took into account the relative size of the GNI components in the total economy. The results are presented in **Annex VIII**.

- 34.** The resulting risk-size indicator prioritises the GNI components to be verified in each Member State, and facilitates comparisons over time for each Member State and/or between Member States. Thus, the Court selected the GNI components to be examined through in-depth verification and/or desk review in the Member States. The Court found that Eurostat only carried out direct verification on one of the GNI components with the highest risk-size indicator according to the Court's cost–benefit analysis in the 10 selected Member States¹⁹.
- 35.** The Court compared the results of its own cost–benefit analysis with the GNI components on which Eurostat reported 'action points A'²⁰ that may have a significant impact on the calculation of GNI, and with all those on which Eurostat carried out direct verification in the 10 Member States under review.
- 36.** This comparative analysis revealed that Eurostat only covered the compilation of most of the material and risky GNI components in its verification of Poland. In the other nine selected Member States Eurostat did not require improvements in and/or clarifications of the compilation process, and did not carry out direct verification on the following four significant areas (exceeding the reference threshold of 5 in the value of the risk-size indicator):
- manufacturing NACE D (Rev. 1) representing between 12 % and 21 % of their GNI;
 - wholesale and retail trade, and repair NACE G (Rev. 1)²¹ representing between 10 % and 12 % of their GNI;
 - real estate, renting and business activities NACE K (Rev. 1)²² representing between 14 % and 18 % of their GNI;
 - taxes minus subsidies on products²³ representing between 10 % and 13 % of their GNI.

¹⁹ In Belgium for the compilation of real estate, renting and business activities NACE K (Rev. 1).

²⁰ Such points relate to improvements in statistical methods, more exhaustive and updated sources and actions to comply with ESA95. Action points B, C, D and E as well as transversal issues (not reported as action points A) were excluded from this analysis.

²¹ Belgium, Germany, Spain, France, Italy, the Netherlands and Austria.

²² Spain, Italy, Austria and Sweden.

²³ Belgium, France, Italy, the Netherlands, Austria, Sweden and the United Kingdom.

... EUROSTAT DID NOT APPLY A CONSISTENT VERIFICATION APPROACH BETWEEN MEMBER STATES

- 37.** The application of the control procedures underlying the Commission's framework should ensure a consistent approach across Member States in terms of intensity and level of detail in Eurostat's checks.
- 38.** Eurostat's verification of GNI inventories relating to the 10 selected Member States was reviewed and the Court found that Eurostat had not consistently applied its control procedures in the Member States.

CHECKS BASED ON THE GNI INVENTORY ASSESSMENT QUESTIONNAIRE NOT ADEQUATELY DOCUMENTED

- 39.** The verification carried out by Eurostat was not adequately documented. This prevented the Court from fully assessing whether the Commission's control procedures had been applied consistently in the Member States and whether the Commission's management supervision had been carried out properly.
- Some of the questions of the GIAQ were not answered²⁴.
 - Varying levels of detail were given in the answers to the GIAQ²⁵.
 - It was not always possible to make a clear link between the GIAQ and the action points reported in Eurostat's mission reports²⁶.
 - Eurostat's follow-up of action points could not be examined in cases where the log-file was not updated and/or not sufficiently detailed²⁷.

²⁴ More than 20 questions were not completed in respect of Poland and the United Kingdom.

²⁵ Insufficient details were included in the answers for Belgium, France, Italy and the Netherlands.

²⁶ Belgium, France, Italy and the Netherlands.

²⁷ Belgium, Spain, Italy and the Netherlands.

WEAKNESSES IN THE PERFORMANCE OF DIRECT VERIFICATION

- 40.** The guidelines adopted by the GNI Committee include several general criteria to select GNI components to be examined for direct verification²⁸. However no guidance is provided on how to apply such criteria. Eurostat selected areas to be analysed on different bases from Member State to Member State and so a consistent approach was not applied.
- 41.** For 8 of the 10 reviewed Member States²⁹ there was no evidence that Eurostat had verified checks made by the NSIs on the input data used for estimating the selected components. This raises doubts as to whether supervisory and control systems for the compilation of national accounts in these NSIs were adequately assessed by Eurostat.
- 42.** The legal basis under which Eurostat performed its direct verification was the GNI regulation³⁰. Given the objectives and scope of direct verification, in the Court's view the more appropriate legal basis would have been the own resources' regulation³¹. The latter does not foresee the participation of other Member State NSIs in the inspections and sets out specific deadlines for formal Commission reporting and the Member States' replies³². This legal basis was not used by Eurostat in the context of this verification cycle.

LACK OF CRITERIA FOR SETTING COUNTRY-SPECIFIC RESERVATIONS

- 43.** Eurostat did not define any criteria to decide which points included in the assessment reports (see paragraphs 79 to 82) should become country-specific reservations. It did not attempt to calculate the potential impact on GNI of the required improvement actions underlying the reservations. Thus it was not possible to assess whether the 103 specific reservations set on the EU-25 Member States (see **Annex IX**) comply with the cost-benefit principle (see paragraph 28).
- 44.** Cases of inconsistent setting of country-specific reservations by the Commission are reported in paragraphs 62 to 64.

²⁸ The selection of components for direct verification may take into account the following criteria: referring to parts that are representative of the compilation and estimation process of GNI, covering calculations which involve a number of adjustments and considering potential risk areas of the process.

²⁹ All except Austria and Poland.

³⁰ 'Information visits' set out in Article 6.

³¹ 'Control visits' set out in Article 19.

³² 3 months for the Commission and 3 months for the Member States.

TRANSVERSAL SPECIFIC RESERVATIONS SET INAPPROPRIATELY

- 45.** Although not explicitly envisaged in the procedures adopted by the GNI Committee, the Commission set six 'transversal'³³ specific reservations. These reservations are defined by the Commission as points notified to all Member States with the aim of enabling Eurostat to make a comparison of the underlying compilation in order to improve the estimation of GNI.
- 46.** The Court found cases where these reservations were not justified as Member States were not affected by the underlying compilation issues (e.g. in the case of the treatment of cooperative dwellings where 14 Member States declared they did not have these transactions³⁴), and their impact on the quality of national accounts was not significant (e.g. in the case of the treatment of entities with little or no physical presence where the expected impact on GNI is limited and mainly concerns small Member States).

³³ Cross-border property income, financial intermediation services indirectly measured (FISIM), illegal activities, car scrap schemes, cooperative dwellings and entities with little or no physical presence.

³⁴ Belgium, Bulgaria, Estonia, Greece, France, Cyprus, Latvia, Lithuania, Hungary, Malta, the Netherlands, Romania, Slovenia and the United Kingdom.

... EUROSTAT DID NOT CARRY OUT SUFFICIENT WORK AT MEMBER STATE LEVEL

- 47.** Eurostat should carry out sufficient work at NSI level to cover the main risks relating to the compilation of national accounts (see **Annex VI**) so as to be able to make an adequate assessment of the quality of GNI data in Member States.

LIMITED SCOPE IN EUROSTAT'S VERIFICATION OF GNI INVENTORIES

- 48.** The evidence included in Eurostat's files did not demonstrate that key compilation issues had been examined sufficiently in-depth as explained below.

INADEQUATE EXAMINATION OF THE BUSINESS REGISTERS (BRs) AND OF THE CLASSIFICATION OF INSTITUTIONAL UNITS AND TRANSACTIONS IN THE GENERAL GOVERNMENT (GG) SECTOR

- 49.** The quality of the BRs³⁵ and the availability of detailed data, enabling a correct classification of the institutional units and transactions, are key elements for compiling national accounts. The examination of the completeness of BRs, as well as the application of the market/non-market criteria³⁶ and the classification of transactions in the institutional sector of general government (GG) fall under the responsibility of other departments in Eurostat, not the one in charge of the verification of GNI data for own resource.
- 50.** For the 10 selected Member States there was no evidence that Eurostat's department in charge of the verification of GNI data sufficiently examined these issues either by performing its own checks or by reviewing the results of the other responsible departments. The related risks in terms of the compilation of the national accounts were therefore not properly addressed due to insufficient coordination between Eurostat's departments.
- 51.** This is confirmed by the inadequate adjustment (based on information more than 20 years old still being used) made in the German national accounts to address the poor quality of the BR (see **Table 1**, point 2), and by the classification of public hospitals and the recording of part of their revenue in Austria which are not compliant with ESA95.
- 52.** Following its visits to Austria from 2007 to 2012, Eurostat's department in charge of the excessive deficit procedure (EDP) raised the possibility that the NSI might not have properly applied the market/non-market criteria to classify public hospitals in the national accounts. This observation was not taken into account by Eurostat's department responsible for the verification of GNI data for own resource purposes. A country-specific reservation should have been placed by the Commission on this issue.

³⁵ BR includes information on the active population of statistical units engaged in an economic activity, their local units, the legal units which make up those enterprises, and enterprise groups. The BR should be updated on a regular basis. The analysis of the population of enterprises included in the BR should be the starting point for the compilation of GNI under the production approach.

³⁶ See paragraph 3.27 to 3.37 of ESA95. In particular if less than 50 % of the production costs are covered by sales, the institutional unit is a non-market producer and may be classified in the GG sector.

- 53.** The Court's desk review found that funds disbursed by GG to cover the operating losses of these hospitals are recorded in Austria as subsidies on products granted to services in the area of health care. These represent about 1,5 % of GNI per year³⁷. ESA95³⁸ does not allow payments of services in the context of social risks or needs to be recorded as subsidies. Eurostat did not carry out any specific checks on this GNI component in order to assess whether the recorded transaction should have been classified as social transfers in kind. This reclassification would increase the estimation of the Austria's GNI.

LACK OF EVIDENCE OF/AND RESTRICTED SCOPE OF EUROSTAT'S VERIFICATION

- 54.** The quality of Eurostat control files in respect of Belgium, Italy and the Netherlands prevented the Court from fully examining the work carried out. It was not possible to assess whether — for the GNI components it selected for these three Member States — the Commission covered any of the key controls drawn up by the Court.

- 55.** This calls into question Eurostat's compliance with the requirements of the Internal Control Standards (ICS), according to which adequate documentation of the work carried out is required not only to allow proper management supervision but also to ensure operational continuity over time³⁹.

- 56.** Moreover, Eurostat did not cover the following points in the 10 Member States examined by the Court:

- the assessment of the availability and possible use of other sources in the compilation process;
- the classification of units in institutional sectors other than general government (GG)⁴⁰;
- the application of recommendations included in the Manual of Government Deficit and Debt and/or the consideration of the views put forward by the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) whenever relevant for the compilation of gross domestic product (GDP) and GNI.

Addressing these three issues would improve the quality of the compilation procedures in national accounts thus having an impact on the estimation of GNI data.

³⁷ This was calculated on the basis of the data published by Eurostat referring to the years 2004–07.

³⁸ See paragraph 4.38 according to which the following cannot be treated as subsidies: '(j) payments made by general government to market producers to pay entirely, or in part, for goods and services that those market producers provide directly and individually to households in the context of social risks and needs (see paragraph 4.84), and to which the households have a legally established right. These payments are included in individual consumption expenditure of general government, and subsequently in social benefits in kind and actual individual consumption of households.'

³⁹ In particular, ICS No 9 'Management supervision' and No 10 'Business continuity'. See Communication to the Commission 'Revision of the internal control standards and underlying framework — strengthening control effectiveness', SEC(2007)1341 of 16.10.2007.

⁴⁰ In particular, for non-financial corporations, households (HH) and non-profit institutions serving households (NPISH). The classification of the latter sector was properly covered in the United Kingdom as a specific reservation was set by the Commission.

PROBLEMS REGARDING COMPLIANCE WITH ESA95 AND THE QUALITY OF NATIONAL ACCOUNTS' ESTIMATES NOT DETECTED BY EUROSTAT

- 57.** The Court audited five of the 10 Member States on-the-spot. This audit revealed problems in compliance with ESA95 and in the reliability, comparability and exhaustiveness of national accounts' estimates which were not detected by Eurostat. **Table 1** provides an overview of the main findings and includes information on the potential impact of the adjustments needed to correct them (when quantifiable) and on the relative size of the items at risk (when the impact is non-quantifiable⁴¹). This information results from the Court's in-depth verification of selected GNI components, and includes an assessment based on data⁴² provided by the NSIs without making any alternative statistical estimations.
- 58.** For each of the non-quantifiable observations, the share of GNI at risk is the relative size of the component in the economy. The Court established two materiality thresholds: for quantifiable observations the potential impact of the adjustments needed exceeds 0,2 % of GNI, and for non-quantifiable observations the relative size of the GNI components at risk exceeds 0,5 % of GNI.

⁴¹ This means that their impact on GNI is unknown.

⁴² In general, these relate to the compilation of GNI for the most recent benchmark or reference year.

TABLE 1

POTENTIAL IMPACT OF THE COURT'S FINDINGS ON THE QUALITY OF MEMBER STATES' GNI

| Additional specific country description, assessment of the impact on GNI and/or share of GNI at risk | | Germany | Spain | France | Italy | United Kingdom |
|--|---|---|--|---|--|---|
| Observations | | | | | | |
| | | | | | | |
| 1. Incorrect treatment of rents on land in national accounts | Rents on land not deducted from Intermediate Consumption (IC) in some cases | Rents on land not deducted from IC and Output in some cases | Rents on land not deducted from Output (excluded from the reservation set by the Commission) | Not Applicable | Rents on land not deducted from Output (excluded from the reservation set by the Commission) | Not Applicable |
| | Non-material finding (share of GNI at risk: 0,05 %) | Non-material finding (share of GNI at risk: 0,15 %) | Non-material finding (share of GNI at risk: 0,15 %) | Not Applicable | Non-material finding (share of GNI at risk: 0,15 %) | Not Applicable |
| 2. Cut-off adjustments based on out-of-date assumptions or conceptual adjustments not made | Cut-off adjustments for own account Output, small tools and Business Register (BR) based on out-of-date assumptions | Not Applicable | Not Applicable | Not Applicable | Not Applicable | Conceptual adjustments not made for small tools, occupational health and staff training costs, staff travel and subsistence |
| | Material finding (share of GNI at risk: 0,73 %) | Not Applicable | Not Applicable | Not Applicable | Not Applicable | Not measurable finding |
| 3. Insufficient coverage or weaknesses in the estimation of the underground economy | Inadequate consideration of misreporting, unregistered units and tax fraud | Inadequate consideration of misreporting and VAT fraud without complexity | Exhaustiveness adjustment for unregistered units based on out-of-date assumptions and not documented | Weaknesses in the estimation of exhaustiveness adjustments for unrecorded employment and for misreporting | Not Assessed (due to the existing specific reservation set by the Commission on this issue) | Not Assessed (due to the existing specific reservation set by the Commission on this issue) |
| | Material finding (share of GNI at risk: 1,59 %) | Material finding (share of GNI at risk: 6,31 %) | Material finding (share of GNI at risk: 0,74 %) | Material finding (share of GNI at risk: 11,81 %) | Material finding (share of GNI at risk: 11,81 %) | Not Assessed (due to the existing specific reservation set by the Commission on this issue) |
| 4. Incorrect recording of EU grants in national accounts | - | Not Assessed (due to the existing specific reservation set by the Commission on this issue) | - | - | - | - |
| | Non-material finding (impact on GNI: +0,11 %) | Not Assessed (due to the existing specific reservation set by the Commission on this issue) | Non-material finding (impact on GNI: +0,09 %) | Non-material finding (impact on GNI: +0,11 %) | Non-material finding (impact on GNI: +0,11 %) | Non-material finding (impact on GNI: +0,11 %) |
| 5. Insufficient quality of estimates made for distribution margins | Distribution margins by product not calculated according to the method recommended by the GNP Committee | Not Applicable | Not Assessed | Not Assessed | Not Applicable | Not Applicable |
| | Material finding (share of GNI at risk: 10,60 %) | Not Applicable | Not Assessed | Not Assessed | Not Applicable | Not Applicable |

Non-quantifiable observations

Quantifiable observations

Not measurable observations

TABLE 1

| Additional specific country description, assessment of the impact on GNI and/or share of GNI at risk | | | | | |
|--|---|--|---|---|--|
| Observations | Germany | Spain | France | Italy | United Kingdom |
| 6. Insufficient quality of estimates made for renting (NACE K rev. 1) | Recording of financial leasing | No estimation of production of software for own-final use for non-market producers | Understatement of Intermediate consumption (IC) for housing services | Understatement of IC for housing services | Not Applicable |
| | Non-material finding (share of GNI at risk: 0,29 %) | Non-material finding (impact on GNI: +0,01 %) | Material finding (impact on GNI: -1,18 %) | Material finding (impact on GNI: -1,50 %) | |
| 7. Insufficient quality of estimates made for health and social work (NACE N rev. 1) | Not Assessed | Insufficient quality in the estimate of market producers other than hospitals | Weaknesses in the estimation of social work activities | Not Assessed | Not Assessed |
| | | Material finding (share of GNI at risk: 1,77 %) | Non-material finding (impact on GNI: +0,15 %) | | |
| 8. Classification and valuation of NPISH not compliant with ESA95 (gross value added or expenditure) | - | - | - | Not Applicable | Not Assessed (due to the existing specific reservation set by the Commission on this issue) |
| | Material finding (share of GNI at risk: 1,78 %) | Material finding (share of GNI at risk: 0,87 %) | Material finding (share of GNI at risk: 0,73 %) | | Inconsistent accounting treatment of taxes and subsidies on products due to weaknesses in the compilation procedure of transition from Output at producer's prices to basic prices |
| 9. Incorrect or inconsistent accounting treatment of revenue, taxes and subsidies | Not Assessed | Not Assessed | Incorrect recording of the tax on car circulation and revenue from municipalities | Not Assessed | |
| | | | Non-material finding (impact on GNI: +0,04 %) | | Material finding (share of GNI at risk: 6,87 %) |
| Total of impact on GNI (quantifiable observations) | + 0,11 % | + 0,01 % | - 0,90 % | - 1,39 % | + 0,11 % |

 Non-quantifiable observations

 Quantifiable observations

 Not measurable observations

Source: ECA (based on its in-depth verification of GNI components).

COUNTRY-SPECIFIC RESERVATIONS NOT SET BY THE COMMISSION

59. Based on the Court's thresholds, specific reservations should have been placed by the Commission on the following issues:

- adjustments based on out-of-date assumptions (information more than 20 years old still being used) in Germany; these adjustments represented a total of 0,73 % of the GNI of Germany;
- insufficient coverage of the underground economy⁴³ in Germany and Spain, and weaknesses in the estimation of this component in France and Italy;
- insufficient quality in the estimation of distribution margins in Germany;
- insufficient quality in the estimation of renting services in France⁴⁴ and Italy;
- insufficient quality in the estimation of health and social work in Spain (a significant part of these estimates was based on a survey of the year 2000 covering only the Community of Madrid whose representativeness was not assessed);
- classification and valuation of non-profit institutions serving households (NPISH) not fully compliant with ESA95 in Germany, Spain and France, (the gross value added or the expenditure of this sector represents between 0,7 % and 1,8 % of these Member States' GNI); and
- inconsistent accounting treatment of taxes and subsidies on products in the valuation of output in the United Kingdom.

ESTIMATION OF THE UNDERGROUND ECONOMY NOT FULLY COMPARABLE BETWEEN MEMBER STATES

60. The compilation procedures used for estimating the underground economy by the five Member States audited on-the-spot are not fully comparable because they do not always follow the Commission's guidelines on exhaustiveness⁴⁵.

61. Given the significant levels of the underground economy as estimated by the NSIs, an improvement in the quality of these estimates would have had a material impact on GNI. This effect cannot however be quantified.

⁴³ National accountants are particularly concerned about ensuring that the economic activities are measured comprehensively including those that are hidden (that is the 'underground economy') as well as those that are simply described as informal.

⁴⁴ The estimate of intermediate consumption for households amounted to 3,3 % of the output, whereas the rate applied in the other institutional sectors exceeded 15 %. Such a large difference shows that there are problems in the compilation of this component.

⁴⁵ In particular, Commission Decision 94/168/EC, Euratom of 22 February 1994 on measures to be taken for the implementation of Council Directive 89/130/EEC, Euratom on the harmonisation of the compilation of gross national product at market prices (OJ L 77, 19.3.94, p. 51), Commission Decision 98/527/EC, Euratom of 24 July 1998 on the treatment for national accounts purposes of VAT fraud (the discrepancies between theoretical VAT receipts and actual VAT receipts) (OJ L 234, 21.8.98, p. 39) and GNI Committee document No 50 of July 2005 on 'Eurostat's tabular approach to exhaustiveness guidelines'.

THE SETTING OF SPECIFIC RESERVATIONS BY THE COMMISSION WAS NOT ALWAYS CONSISTENT

- 62.** The findings in *Table 1* classified as non-material represent less important issues on which it is not necessary in the Court's view to set specific reservations. Nevertheless, it is noted that for some of these points the Commission set a country-specific reservation on a Member State without checking whether the same compilation problem existed in other Member States in order to ensure equal treatment.
- 63.** The Commission should not have placed reservations on these points or it should have set reservations on all Member States in which improvements were required. The following are examples where there was an inconsistent setting of country-specific reservations by the Commission (see *Annex IX*).
- A reservation was set on Spain because of the incorrect treatment of small tools in national accounts, whereas no reservation was placed on the United Kingdom which has comparable problems on the recording of this component.
 - Another reservation was set on Spain concerning the recording of EU grants, whereas no reservations were placed on Germany, France, Italy and the United Kingdom which do not properly record these transactions either.
 - A reservation was set on Italy⁴⁶ on the recording of rents on land, whereas no reservations were placed on Germany and Spain which do not properly record these rents either.
 - A reservation was set on Poland due to the failure to make an estimate for software for own-final use, whereas no reservation was placed on Spain which does not record this type of software for non-market producers either.
- 64.** These problems would not have occurred if the Commission had set criteria for placing country-specific reservations (see paragraph 43) and carried out sufficient work at Member State level to avoid inconsistencies.

⁴⁶ The scope of this Commission's reservation did not however cover the deduction of rents on land from output.

BETTER-FOCUSED VERIFICATION WOULD HAVE AN IMPACT ON MEMBER STATES' RELATIVE CONTRIBUTIONS

- 65.** *Table 1* sets out the Court's assessment of the results of failure to apply ESA95 correctly and of lack of quality in respect of 19 selected GNI components in five Member States. These problems in the compilation of national accounts' estimates have had no effect on the overall GNI-based own resources available to finance the EU budget⁴⁷, but they are relevant to the calculation of individual Member States' contributions.
- 66.** The annual contributions for the period 2002–07 of the Member States visited would have been different if ESA95 had been correctly applied and the quality of the estimates had been adequate. As the Commission did not place any reservations on these issues, it can no longer take these impacts into account for the budget by adjusting the GNI balances. It is not possible however, on the basis of the work done by the Court, to state what those contributions should have been.
- The scale of the potential impact of the quantifiable observations on the annual contributions to the budget of the Member States visited ranged from + 0,4 % to –1,1 %. This assumes that no other changes would have been needed for GNI components in the five Member States concerned, or in the GNI estimates of the other 22 Member States.
 - The weaknesses leading to the non-quantifiable observations may also affect the calculation of Member States' contributions: by definition it is not possible reliably to estimate their impact.
- 67.** The Court's examination of selected GNI components in five Member States thus demonstrates that a better-focused verification could have an impact on Member States' relative contributions to the budget.

⁴⁷ Changes in the estimated GNI of individual Member States would affect the estimate of total EU GNI. However, this has no effect on the overall GNI-based own resources. Any increase (or decrease) in estimates of total EU GNI will be offset by a decrease (or increase) in the uniform rate to be applied to Member States' GNI to finance the budget.

... EUROSTAT COMPLETED ITS VERIFICATION CYCLE LATE

- 68.** At the end of January 2012, Eurostat completed its verification of GNI inventories. DG Budget notified the EU-25 Member States of the setting of specific reservations on GNI data for the period 2002–10⁴⁸ and lifted the outstanding general reservations on the same Member States for the period 2002–07.
- 69.** The Commission's examination of Member States' GNI inventories was carried out between the beginning of 2007 and the beginning of 2012. The Court considers this examination to have taken too long: 10 years elapsed between the year the verification was completed and the first reference year of the GNI data under review.
- 70.** This time lapse was due to the Commission's comprehensive approach, requiring a significant workload for both Eurostat and the NSIs. It is also due to the fact that, even though not specifically required by the GNI regulation, all information visit reports and assessment reports were adopted by the GNI Committee, which only met around three times per year.

EXCESSIVE USE OF GENERAL RESERVATIONS

- 71.** In order to be able to modify GNI data for own-resource purposes during this long verification process, the Commission placed general reservations on Member States to cover GNI data for the years 2002–07.
- 72.** Excessive use was made of these reservations. This could lead to circumventing the principle that the process of providing and examining GNI data must be concluded within the 4-year time limit set in the own resources' regulation. Reservations should only relate to specific points covering the valuation of discrete GNI components.
- 73.** In July 2012, the internal audit department⁴⁹ of DG Budget pointed out that placing general reservations for extended periods in order to be able to modify GNI data for own-resource purposes and subsequently replacing them with specific reservations allowed Member States' GNI data to be subject to corrections more than 10 years after the years concerned. This led to budgetary uncertainty in Member States.

⁴⁸ With the exception of the transversal reservation on financial intermediation services indirectly measured (FISIM) which only covers the year 2010, and the country reservations on EU-10 Member States which only cover the period 2004–10.

⁴⁹ The internal audit capability (IAC).

MAJOR REVISIONS NOT SUFFICIENTLY EXAMINED

- 74.** By the time that Eurostat had completed its verification, all 10 selected Member States had carried out a major revision⁵⁰ of their national accounts (see **Table 2**) leading to a new set of GNI data to be taken into account for own resource purposes.

⁵⁰ The major regular or benchmark revisions imply changes in sources and methods for the compilation of GNI, whereas the major occasional revisions derive from important methodological changes in concepts and definitions and/or in the classification used: e.g. the introduction of the new EU statistical classification of economic activities (NACE Rev. 2) in national accounts in 2011 or the implementation of the forthcoming accounting framework (ESA2010). Major revisions require the retrospective calculation of GNI data of previous years.

TABLE 2

MAJOR REVISIONS CARRIED OUT BY THE 10 MEMBER STATES BETWEEN 2008 AND 2011 REVIEWED BY THE COURT

| Selected Member States | GNI inventory examined by Eurostat in the context of the verification cycle under review | | Major regular or benchmark revisions during the verification process | | New/updated GNI Inventory provided Yes, when/No/ Not Applicable (N/A) |
|------------------------|--|-------------------------------|--|--|---|
| | Provided in: | Benchmark/ reference year: | Implemented in: | Revised benchmark/ reference year: | |
| Belgium | May 2007 | 2003 | 2009 | 2006 ² | No |
| Germany | December 2006 | 2000 | 2011 | 2008 | No |
| Spain | December 2007 | 2000 | 2011 | 2008 | No |
| France | July 2007 | 2000 | 2011 | 2005 | No |
| Italy | December 2007 | 2000 | 2011 | 2008 | No |
| Netherlands | December 2006 | 2001 | N/A ¹ | N/A | N/A |
| Austria | January 2007 | 2002 | 2008 | 2004 | Yes, February 2009 |
| | | | 2011 | 2008 | No |
| Poland | December 2006 | 2002 | N/A ¹ | N/A | N/A |
| Sweden | January 2008 | 2005 | 2010 | 2006 | No |
| United Kingdom | July 2007 | 2003 | 2008 | 2005 | Yes, March 2011 |

¹ Except the revisions derived from the implementation of NACE Rev. 2 in national accounts.

² Reference year where detailed data derived from annual accounts were available to be used in National accounts.

Source: ECA (based on the information in Eurostat's control files).

- 75.** Seven of the eight NSIs which carried out major regular or benchmark revisions during the verification process did not prepare updated GNI inventories. Therefore Eurostat had to carry out its analysis on the limited information included in the GNI quality reports.
- 76.** In five⁵¹ of these Member States the scope of Eurostat's work was restricted. This was because of the lack of time between the implementation of the major revisions⁵² (September 2011) and the completion of the verification process (January 2012). As a consequence, a comprehensive assessment of the new sources and methods was not made and direct verification was not based on the revised compilation process of the selected GNI components.

⁵¹ Germany, Spain, France, Italy and Austria.

⁵² Excluding those which concern the implementation of NACE Rev. 2.

⁵³ These points concern in particular estimates of entertainment, literary and artistic originals, insurance, software and consumption of fixed capital on roads, bridges, etc.

... EUROSTAT'S VERIFICATIONS WERE NOT ADEQUATELY REPORTED

- 77.** Clear and transparent reporting on the verification of GNI data is important. It enables the stakeholders to understand the Commission's assessment of Member States' GNI and to take action where necessary. Thus the Court examined Eurostat's assessment reports on the GNI of the selected Member States (see paragraphs 79 to 82), the annual opinions of the GNI Committee for years 2002–11 (see paragraphs 83 to 87) and the AARs of Eurostat and DG Budget for years 2002–11 (see paragraphs 88 to 92).
- 78.** The Commission has limited internal guidance on the reporting of its verification of GNI data and of its management of GNI-based own resources. The quality of the Commission's reporting was therefore assessed against standards of completeness, transparency and consistency defined by the Court.

EUROSTAT'S ASSESSMENT REPORTS ON MEMBER STATES' GNI WERE NOT ALWAYS COMPLETE, TRANSPARENT AND CONSISTENT

- 79.** Eurostat prepared the assessment reports on Member States' GNI, including country-specific points for improvement with possible impact on GNI and transversal issues. The Court found that no criteria had been used by Eurostat to establish the country-specific points for improvement or the transversal issues⁵³.

80. These reports were presented to the GNI Committee in July and October 2011 as provisional 'draft' documents. This allowed some points to be addressed by NSIs before the setting of reservations and/or some changes to be made by Eurostat to apply the principle of equal treatment. However, no final assessment reports on Member States' GNI were prepared.

81. In December 2011, Eurostat issued a document⁵⁴ including all action points which were deemed not important enough to be considered as country-specific points for improvement to be included in the assessment reports. However this document included points that could have an impact on GNI and/or that are similar to specific reservations set by the Commission in other Member States such as:

- the BR in Germany (see *Table 1*, point 2);
- the adjustment made for fraud to intermediate consumption (IC) in the area of hotels and restaurants in the Netherlands;
- the treatment of small tools in national accounts in the Netherlands, Sweden and the United Kingdom;
- the estimate of VAT fraud without complicity in Poland.

82. The Court has the following general observations on the contents of Eurostat's assessment reports in respect of the 10 selected Member States:

- incomplete presentation of the objective(s) and the scope of the verification, as well as the work carried out by Eurostat;
- unclear information on the potential impact of country-specific points for improvement and/or transversal issues and on the possibility that the Commission sets specific reservations on them⁵⁵;
- in the absence of any materiality criteria, it is unclear whether Eurostat's own findings in the reports represent qualifications to the assessment⁵⁶ and whether Eurostat's overall conclusion is to be considered positive or negative.

⁵⁴ GNI Committee document No 222 entitled 'Other issues (deriving mainly from action points B, C and D) for 25 Member States'.

⁵⁵ If not addressed before the end of 2011.

⁵⁶ In Eurostat's assessment reports, it is stated either that the compilation of GNI components 'could' or 'may' be improved, or that there are some areas for improvement. It is however unclear whether the lack of implementation of these points has an impact on the overall assessment.

ANNUAL OPINIONS OF THE GNI COMMITTEE NOT IN LINE WITH LEGISLATION AND NOT INFORMATIVE

- 83.** The GNI Committee adopted ‘non-opinion’ statements relating to Greece for 2006⁵⁷ and to the EU-10 Member States for the years 2006–11⁵⁸ on whether GNI data provided by these Member States were appropriate for own resource purposes.
- 84.** In the case of Greece, the Commission complied with Article 10(7) of the own resources’ regulation⁵⁹. It used the GNI data included in the previous (2005) GNI questionnaire for own resource purposes and no adjustments were made to balances in the budgetary year 2006.
- 85.** This provision was however not complied with in the case of the EU-10 Member States. The Commission calculated and made the corresponding adjustments to balances of GNI-based own resources in the budgetary years 2006–11, even though the GNI Committee did not issue an explicit opinion (see paragraph 16).
- 86.** Concerning the contents of all the opinions issued by the GNI Committee in the period under review the Court found that:
- it is good practice to refer to the legal basis, but this is not done;
 - the presentation of the objective(s) and the assessment basis⁶⁰ is incomplete;
 - it is unclear whether the (general) reservations referred to in the opinions on EU-15 Member States allow the overall conclusion drawn by the GNI Committee to be considered positive or negative.
- 87.** Taking into account the weaknesses found in the Commission’s verification strategy/approach (see paragraphs 26 to 36) and in the verification process (see paragraphs 37 to 67), the work carried out by Eurostat is insufficient to fully support the opinion of the GNI Committee. As the cost–benefit principle was not properly applied in Eurostat’s verification, a scope restriction should have been made in the opinions of the GNI Committee.

⁵⁷ See paragraph 4.26 of the Court’s Annual Report 2006.

⁵⁸ Because the Commission’s verification of GNI Inventories was not yet complete.

⁵⁹ This provision states that any changes to the GNI of previous financial years pursuant to Article 2(2) of the GNI regulation subject to Article 5 shall give rise for each Member State concerned to an adjustment to its contribution to GNI-based own resources. Article 5 of the GNI regulation includes the requirement for the GNI Committee to issue an annual opinion on the appropriateness of Member States’ GNI data for own resource purposes.

⁶⁰ The scope of the verification and the work carried out by Eurostat.

ANNUAL ACTIVITY REPORTS OF DG BUDGET ONLY PROVIDED A PARTIAL ASSESSMENT

- 88.** DG Budget provided little information on the management, risk and control environment relating to GNI-based own resources⁶¹, or on the reasoning used to draw the overall conclusion on the management and control systems⁶². Despite improvements over recent years, the AARs until 2011 of DG Budget provided only a partial assessment of the management of GNI-based own resources.
- 89.** Until 2011 the declarations of assurance issued by DG Budget were not supported by sufficient evidence on either legality and regularity or sound financial management. They only related to the accuracy of the calculation of GNI-based own resources, and not to the quality of the underlying data.
- 90.** Taking into account the specific characteristics of the management of GNI-based own resources⁶³, the basis of the assurance given by DG Budget should have been properly disclosed in its AARs.

⁶¹ In particular, how the annual contributions and adjustments (to previous years' balances) are calculated, how the responsibilities are shared between DG Budget and Eurostat, the role played by the GNI Committee, and the scope and objectives of the verification work carried out by DG Budget and Eurostat.

⁶² Including key indicators on legality and regularity and sound financial management of verifications on GNI-based own resources.

⁶³ The EU rules for their calculation, the complexity of the national accounts' compilation process and the sharing of responsibilities between two Commission's services (see paragraphs 2 to 11).

ANNUAL ACTIVITY REPORTS OF EUROSTAT ONLY PROVIDED A PARTIAL ASSESSMENT

- 91.** Despite improvements over recent years, the AARs of Eurostat provided only a partial assessment of the verifications carried out on GNI data for own resource purposes. Limited information was disclosed by Eurostat on the objectives, scope and the results of its verifications on GNI.
- 92.** Eurostat's declarations covering the principle of sound financial management were not supported by sufficient evidence on the effective use of resources involved in the verification of GNI data for own resource purposes.

CONCLUSIONS AND RECOMMENDATIONS

- 93.** The Court concludes that the Commission's verification of GNI data was not sufficiently structured and focused. The conclusions and recommendations below derive from the application by the Court of good practices of verification arrangements established for the purpose of its audit. These practices form a more structured and formalised approach, as well as providing for a better allocation of resources than the one currently used by Eurostat. As the number of GNI components to be selected for in-depth verification may be tailored to the resources available, there need be no increase in Eurostat staff resources dedicated to the verification of GNI data.
- 94.** The Court found that the verification of GNI data used for own resources for the years 2002–07 was completed late by the Commission and the major revisions carried out by Member States between 2008 and 2011 were not sufficiently examined by the Commission. There was an excessive use of general reservations (see paragraphs 68 to 76).
- 95.** Eurostat did not plan and prioritise its verification work in an appropriate way, as the risks relating to Member States' compilation of national accounts were not appropriately assessed in the selection of areas to be verified (see paragraphs 24 to 36).
- 96.** Eurostat did not apply a consistent approach when carrying out its verifications in Member States and did not carry out sufficient work at that level. The Court's audit demonstrated that a more structured and better-focused approach would improve the effectiveness of the Commission's verification (see paragraphs 37 to 67).
- 97.** Eurostat's verifications have not been adequately reported (see paragraphs 77 to 92).

THE VERIFICATION STRATEGY/APPROACH

RECOMMENDATION 1 UNDERTAKE A STRUCTURED AND FORMALISED PLANNING AND PRIORITISATION EXERCISE

The Commission should carry out a structured and formalised analysis that takes into consideration costs and benefits allowing it to plan and prioritise its verification on specific areas or compilation (sub-) processes (see paragraph 33). Such an analysis should consider the risks relating to the Member States' compilation of their national accounts (see paragraph 32) and the relative size of the GNI components in the total economy.

This risk assessment should be based on all qualitative and quantitative information available in all departments of Eurostat and concentrate on the compilation procedures described in GNI inventories and recent GNI quality reports of Member States (see **Annex VII** and **Annex VIII**).

RECOMMENDATION 2 SHORTEN DURATION OF THE VERIFICATION CYCLE AND LIMIT USE OF GENERAL RESERVATIONS

The Commission should shorten the duration of its verification cycle in order to limit the use of general reservations (see paragraphs 68 to 70, and 72).

Such reservations should be limited to exceptional cases where there are significant risks that the financial interests of the EU are not protected, for example when a Member State carries out a major revision during the verification cycle or at irregular intervals (see paragraphs 71 to 73).

RECOMMENDATION 3 IMPROVE REPORTING TO THE GNI COMMITTEE

Eurostat should report clearly and in a timely manner to the GNI Committee on cases where the cost-benefit principle is considered to apply (see paragraph 28).

THE VERIFICATION PROCESS

RECOMMENDATION 4 APPLY A MORE FOCUSED VERIFICATION

The Commission's verification process should involve a structured and formalised qualitative risk assessment of the compilation procedures described in the GNI inventories and in-depth verification of material and risky GNI components. The selection of GNI components for in-depth verification should be made in accordance with the cost-benefit analysis described in **Recommendation 1**. The scope and objectives of in-depth verification should be broader than those of direct verification carried out by Eurostat in the recent verification cycle (see paragraphs 22, second indent, and 33 to 36).

⁶⁴ See footnote 45.

RECOMMENDATION 5 PAY PARTICULAR ATTENTION TO THE VERIFICATION OF THE EXHAUSTIVENESS OF GNI

The Commission should pay particular attention in its verifications to the exhaustiveness of Member States' GNI and the use of comparable estimation procedures to cover the underground economy in national accounts (see paragraphs 60 and 61). Eurostat should check whether the Commission's guidelines⁶⁴ are followed by all Member States, and take appropriate actions ensuring a comparable treatment of this issue between Member States.

RECOMMENDATION 6 COMPLETE CONTROL FILES AND DOCUMENTATION

The Commission should document its work including a complete set of information relating to Eurostat's verification carried out on the basis of desk checks and/or of visits in the NSIs (see paragraphs 39, 54 and 55).

Eurostat's control files should allow management to clearly identify the results of the checks carried out on the selected GNI components, in compliance with the internal control standards (ICS).

**RECOMMENDATION 7
SPECIFIC RESERVATIONS SHOULD ONLY COVER MATERIAL FINDINGS**

In order to set specific reservations, Eurostat should, where possible, assess the potential impact (for quantifiable observations) and/or the amount at risk (for non-quantifiable observations) of the action points, and set clear materiality criteria. These criteria should be qualitative or quantitative (see paragraphs 43 and 58). As a general rule, reservations should be placed on specific GNI components relating to action points not addressed by the NSIs within the deadlines set and whose impact may be material.

**RECOMMENDATION 8
IMPROVE COORDINATION BETWEEN EUROSTAT'S DEPARTMENTS**

Eurostat should improve coordination between its department in charge of the verification of GNI for own resource purposes and its other departments, in particular those dealing with national accounts (see paragraphs 49 to 53).

In the cases where possible actions undertaken by other Eurostat's departments may have an impact on the compilation of GDP and/or GNI, the GNI Committee should be consulted and the final decision on these measures should be taken at an appropriate hierarchical level in Eurostat.

THE REPORTING

RECOMMENDATION 9 IMPROVE REPORTING

Eurostat should improve its assessment reports to provide a complete, transparent and consistent evaluation of the Member States' GNI data (see paragraphs 79 to 82).

The annual opinions of the GNI Committee should include a clear assessment on whether Member States' GNI data are appropriate (or not) for own resource purposes, their contents should comply with the requirements of the GNI regulation and they should be used appropriately in the budgetary procedure as provided for in the own resources' regulation (see paragraphs 83 to 87).

The AARs of DG Budget and Eurostat should provide a true and fair view of the verification of Member States' GNI data and of the management of GNI-based own resources (see paragraphs 88 to 92).

The Commission should establish requirements for Eurostat to report regularly on the results of its verification of GNI data, allowing DG Budget to draw the required assurance to be used in the context of its AARs.

- 98.** The Court invites the Commission to consider these recommendations in the context of the forthcoming revision of the GNI regulation.

This Report was adopted by the Court of Auditors in Luxembourg at its meeting of 26 September 2013.

For the Court of Auditors



Vítor Manuel da SILVA CALDEIRA
President

GNI-BASED OWN RESOURCES FOR THE YEARS 2002, 2007 AND 2010 BY MEMBER STATE

| Member States | Year 2002 | | Year 2007 | | Year 2010 | |
|--|-----------------|-----------------|------------------|-----------------|------------------|-----------------|
| | million euro | % | million euro | % | million euro | % |
| The 10 largest contributors selected in the context of this audit | | | | | | |
| Germany (DE) | 10 504,5 | 22,86 % | 14 653,8 | 19,83 % | 18 703,8 | 20,54 % |
| France (FR) | 7 684,7 | 16,72 % | 11 215,7 | 15,17 % | 14 762,0 | 16,21 % |
| United Kingdom (UK) | 8 480,5 | 18,46 % | 12 551,2 | 16,98 % | 12 963,4 | 14,24 % |
| Italy (IT) | 6 390,4 | 13,91 % | 9 143,7 | 12,37 % | 11 386,6 | 12,51 % |
| Spain (ES) | 3 430,7 | 7,47 % | 6 073,4 | 8,22 % | 7 611,3 | 8,36 % |
| The Netherlands (NL) | 2 264,9 | 4,93 % | 3 400,6 | 4,60 % | 4 219,2 | 4,63 % |
| Belgium (BE) | 1 335,7 | 2,91 % | 1 985,8 | 2,69 % | 2 662,4 | 2,92 % |
| Sweden (SE) | 1 220,7 | 2,66 % | 1 948,9 | 2,64 % | 2 771,6 | 3,04 % |
| Poland (PL) | 0,0 | 0,00 % | 1 745,6 | 2,36 % | 2 630,9 | 2,89 % |
| Austria (AT) | 1 070,0 | 2,33 % | 1 564,9 | 2,12 % | 2 131,7 | 2,34 % |
| Total | 42 382,1 | 92,25 % | 64 283,6 | 86,98 % | 79 842,9 | 87,68 % |
| Other Member States | | | | | | |
| Denmark (DK) | 893,1 | 1,94 % | 1 393,5 | 1,89 % | 1 705,7 | 1,87 % |
| Greece (EL) | 704,8 | 1,53 % | 1 946,6 | 2,63 % | 1 616,9 | 1,78 % |
| Portugal (PT) | 635,9 | 1,38 % | 940,1 | 1,27 % | 1 344,0 | 1,48 % |
| Finland (FI) | 693,5 | 1,51 % | 1 087,7 | 1,47 % | 1 256,0 | 1,38 % |
| Czech Republic (CZ) | 0,0 | 0,00 % | 703,8 | 0,95 % | 1 051,4 | 1,15 % |
| Ireland (IE) | 537,5 | 1,17 % | 972,2 | 1,32 % | 950,1 | 1,04 % |
| Romania (RO) | 0,0 | 0,00 % | 681,7 | 0,92 % | 859,6 | 0,95 % |
| Hungary (HU) | 0,0 | 0,00 % | 546,7 | 0,74 % | 702,2 | 0,77 % |
| Slovakia (SK) | 0,0 | 0,00 % | 302,5 | 0,41 % | 450,1 | 0,49 % |
| Slovenia (SI) | 0,0 | 0,00 % | 198,3 | 0,27 % | 250,9 | 0,28 % |
| Bulgaria (BG) | 0,0 | 0,00 % | 163,0 | 0,22 % | 247,2 | 0,27 % |
| Luxembourg (LU) | 100,7 | 0,22 % | 202,2 | 0,27 % | 196,6 | 0,22 % |
| Lithuania (LT) | 0,0 | 0,00 % | 158,3 | 0,21 % | 186,4 | 0,20 % |
| Latvia (LV) | 0,0 | 0,00 % | 118,0 | 0,16 % | 133,9 | 0,15 % |
| Cyprus (CY) | 0,0 | 0,00 % | 88,2 | 0,12 % | 124,3 | 0,14 % |
| Estonia (EE) | 0,0 | 0,00 % | 95,8 | 0,13 % | 98,9 | 0,11 % |
| Malta (MT) | 0,0 | 0,00 % | 32,5 | 0,04 % | 40,4 | 0,04 % |
| Total | 3 565,5 | 7,75 % | 9 631,1 | 13,02 % | 11 214,6 | 12,32 % |
| Total GNI-based own resources (GNI OR) | 45 947,6 | 100,00 % | 73 914,7 | 100,00 % | 91 057,5 | 100,00 % |
| Total revenue (million euro) | 95 434,4 | | 117 563,0 | | 127 795,0 | |
| Total GNI OR/ total revenue | 48,15 % | | 62,87 % | | 71,25 % | |

Source: ECA (based on the Commission's financial reports, chapters 14 'GNI' and 32 'GNI balances' of the EU budget).

CALCULATION OF GNI-BASED OWN RESOURCES

CALCULATION OF GNI-BASED OWN RESOURCES FINANCING THE BUDGET

1. The calculation of GNI-based own resources is performed by the application of a uniform rate to Member States' GNI. This is determined as a percentage of the sum of the forecast of annual GNI in such a manner that it fully covers that part of the budget not financed by TOR, VAT-based own resources and other revenue¹. Thus the calculation of the overall GNI-based own resources is influenced by these other sources of revenue.
2. Balances and adjustments to balances of GNI referring to year n are calculated respectively in year $n + 1$ by comparing forecast data with actual GNI data², and in the following years ($n + 2$, $n + 3$, $n + 4$... etc.) using more up-to-date actual data as further described below.
3. The EU rules relating to the calculation of own resources allow for the possibility to modify GNI data for a given financial year until the 30 September of the year $n + 4$. This 4-year rule may be extended in cases where the Commission and/or Member States consider that the quality of data should be improved in some points of the GNI compilation for a given financial year³.
4. The Commission's reservation procedure is used to notify the Member States of these improvement points. A general reservation covers the compilation of all GNI components of a Member State, whereas a specific reservation covers the estimate of discrete GNI components. When the Commission lifts reservations, no more changes to the underlying data can be taken into account for the calculation of own resources.

¹ See Article 5 of the own resources' regulation.

² See Article 10(6) of the own resources' regulation.

³ See Article 10(7) of the own resources' regulation.

USE OF GNI DATA IN THE CALCULATION OF OTHER ELEMENTS OF OWN RESOURCES

5. GNI data play a key role in the wider system of own resources. They are also used to determine the capped amount of VAT bases (which should not exceed 50 % of GNI) for the calculation of VAT-based own resources⁴, to redistribute among Member States the cost of the correction granted to the United Kingdom in respect of budgetary imbalances⁵ and the amount of the gross reduction granted to the Netherlands and Sweden on their annual GNI contributions⁶ and to determine the maximum total annual amount of commitment and payment appropriations to be entered in the budget (ceilings)⁷.

ANNUAL GNI DATA FOR THE CALCULATION OF OWN RESOURCES

6. Annual GNI data⁸ are compiled by the NSIs in the Member States. The NSIs must provide the Commission (Eurostat), before 22 September of each year, with figures for GNI, GDP and their components, covering the preceding year and any changes made to figures of previous years. These data are provided by Member States in the 'GNI questionnaire'.
7. Together with these data, the NSIs of Member States must also transmit a report showing how the aggregates were obtained, describing any significant changes in the procedures ('methods') and basic statistics ('sources') used and explaining any revisions made to earlier GNI estimates ('quality report')⁹.

⁴ See Article 2(1)(b) of the own resources' decision.

⁵ The 'UK correction'. See Article 5 of the own resources' decision.

⁶ See Article 2(5) of the own resources' decision.

⁷ See Article 3 of the own resources' decision.

⁸ GNI data are drawn up on the basis of statistics and other estimates. These are different from forecast data which are used in the system of own resources in the context of the procedure for the approval of the annual budget.

⁹ See Article 2 of the GNI regulation.

8. In order to make a more detailed description of how GNI data are compiled, the NSIs should provide Eurostat with an inventory of the procedures and basic statistics ('GNI inventory') used to make estimates of the different GNI components¹⁰.
9. According to the guidelines adopted by the GNI Committee in July 2005, a fully updated GNI inventory should be prepared by Member States at the latest 1 year after the completion of any major revision¹¹. If a Member State does not have a revision policy which includes major revisions, the GNI inventory should be updated at least every 5 years.
10. In July 2012, these guidelines were amended so as to require Member States to provide an updated GNI inventory only if requested by the GNI Committee when major revisions are carried out within the Eurostat verification cycle.

¹⁰ See Article 3 of the GNI regulation.

¹¹ The major regular or benchmark revisions imply changes in sources and methods for the compilation of national accounts, whereas the major occasional revisions derive from important methodological changes in concepts and definitions and/or in the classification used. See also footnote 50 of the report and its **Glossary**.

COMMISSION'S VERIFICATION OF MEMBER STATES' GNI INVENTORIES

SETTING OF GENERAL RESERVATIONS

1. As GNI data are open for own resource purposes for only 4 years and as Eurostat assessment of Member States' GNI inventory can take longer than this period (as has happened, for example for GNI data of years 2002 onwards), the Commission (DG Budget) places general reservations covering the compilation of all GNI components of a Member State.

DESK CHECKS BASED ON THE GIAQ

2. Eurostat reviews the GNI inventories¹ in order to ensure a 'systematic, consistent and fair' approach in the assessment of the quality of Member States' GNI data. Eurostat's work is documented using the GIAQ, which includes 265 detailed questions covering the compilation of the entire national accounts.

INFORMATION VISITS²

3. Taking into account its desk checks based on the GIAQ, Eurostat prepares questions to be clarified during an information visit to the NSI. The information visit aims in particular to collect the necessary information to determine any weaknesses in the statistical sources and methods used to calculate GNI and its components.

¹ See footnote 11 of the report.

² These are carried out by the Commission. Representatives from other Member States may participate (see Article 6 of the GNI regulation).

MISSION REPORTS AND ACTION POINTS

4. The information visit in a Member State gives rise to 'action points', which consist of issues for which possible methodological changes are necessary and/or weaknesses in the supervisory and control systems need to be addressed. These action points are broken down into the following five categories:
 - **Action Points 'A'**: possible improvement of methodology required;
 - **Action Points 'B'**: submission of new information that should be included in the GNI inventory;
 - **Action Points 'C'**: redrafting, clarifying or correcting already existing information in the GNI inventory;
 - **Action Points 'D'**: submission of new information that does not necessarily have to be included in the GNI inventory;
 - **Action Points 'E'**: points to be implemented by Eurostat.

5. The mission reports (together with the timetable for the implementation of action points) should be agreed between Eurostat and the NSIs, and should be submitted to the GNI Committee for discussion and adoption.

DIRECT VERIFICATION

6. As a supplement to the review of GNI inventories based on the GIAQ, Eurostat has performed direct verification of GNI components since 2007, as recommended by the Court³.

7. As set out in Eurostat's guidelines, this approach mainly aims to follow the trail from the selected national accounts' component back to the source data⁴.

³ See paragraph 4.30 (a) of the Court's Annual Report 2005, Annex 4.1 of Annual Report 2006 and paragraph 4.45 of Annual Report 2007.

⁴ The principal objectives of direct verification are to verify whether the description of sources and methods in the GNI inventory adequately reflects the compilation practice actually applied, and whether the basic data as shown in the sources have been processed appropriately into the national accounts' figures provided by Member States for GNI-based own resources. By means of this approach, Eurostat does not make any estimation of GNI components.

8. Direct verification is generally carried out for one or two GNI components. Eurostat does not normally expect to be able to draw conclusions on all parts of the estimates included in the GNI inventory on the basis of this work.

LOG-FILES AND TRACKED UPDATES OF THE GNI INVENTORY

9. In order to monitor progress on action points and to document the verification process, Eurostat keeps a log-file showing all information relating to each action point and a continuously updated (non-public) version of the GNI inventory in tracked mode.

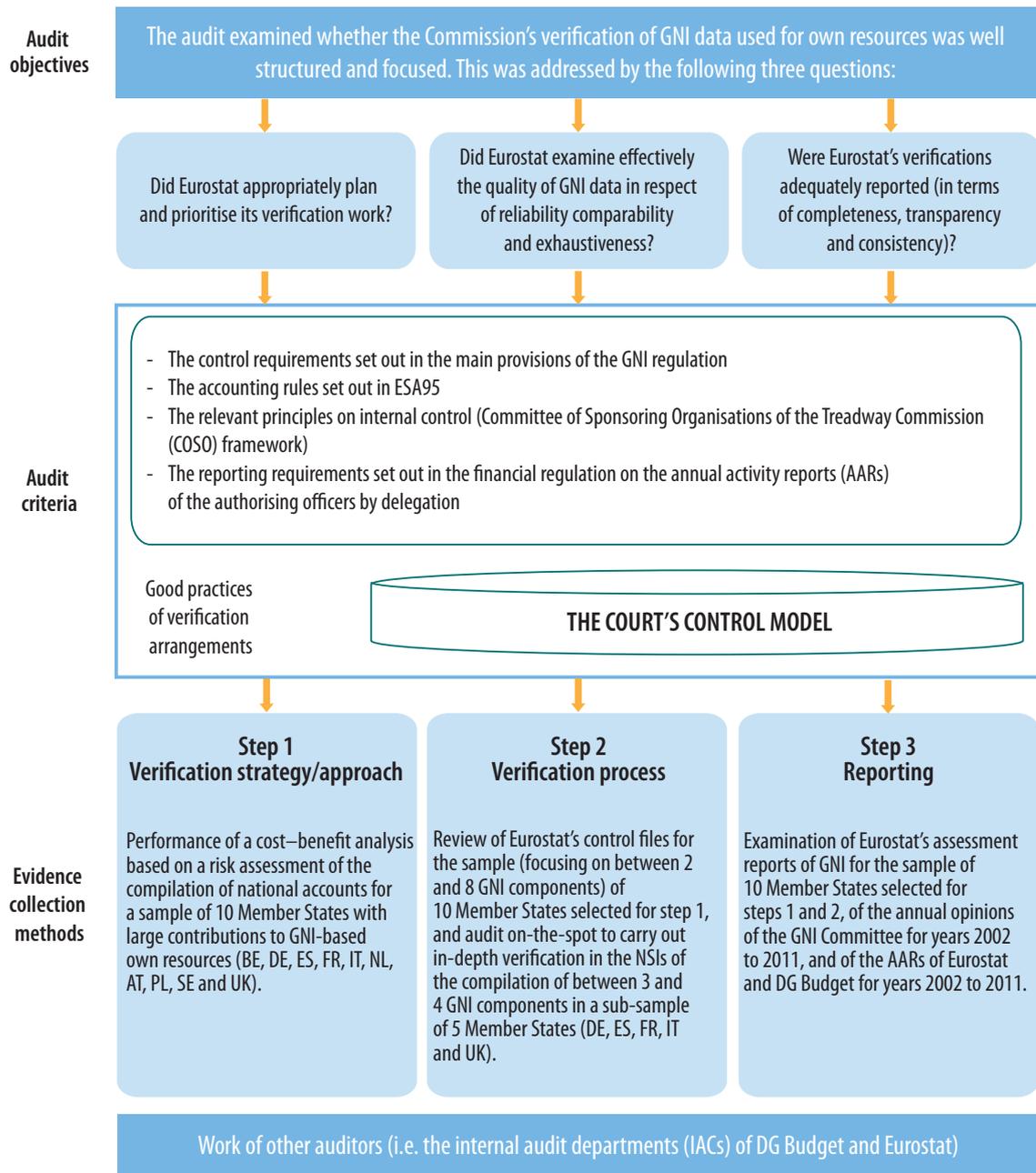
ASSESSMENT REPORTS

10. Eurostat drafts assessment reports on the quality of Member States' GNI data relating to a certain number of years (e.g. the period 2002–10). The assessment reports are used as a basis for the setting of specific reservations by the Commission.

SETTING OF SPECIFIC RESERVATIONS AND LIFTING OF GENERAL RESERVATIONS

11. For any action points considered important by Eurostat for which full information has not been made available and/or the required improvements have not been made by NSIs, the Commission sets specific reservations covering the estimate of discrete GNI components. This means that the verification is complete and any existing general reservations may be lifted.

OVERVIEW OF THE COURT'S AUDIT APPROACH AND METHODOLOGY



Source: ECA.

THE COURT'S CONTROL MODEL

TOWARDS AN IMPROVED CONTROL FRAMEWORK

1. The Court analysed the general architecture of the Commission's systems in order to establish good practices of verification arrangements to be used for the purpose of this audit.
2. These practices involve a more structured and formalised approach, as well as a better allocation of resources. They envisage a different mix of control procedures compared to the Commission's framework: less intensity of qualitative examination of sources and methods described in the Member States' GNI inventory and more testing of the compilation process through in-depth verification¹ of material and risky components.
3. These verification arrangements, which are consolidated in this control model, are divided into the three key steps of Eurostat's verification, as described below.

STEP 1 — VERIFICATION STRATEGY/APPROACH

4. The proposed strategy/approach is to plan and prioritise the verification of GNI components using a structured methodology implementing the cost-benefit principle ('cost-benefit analysis').

¹ See footnote 16 of the report.

5. The cost–benefit analysis should result from the application of the following tools and procedures:
- (a) A **detailed qualitative risk assessment** of the compilation of GNI in Member States should be carried out. Risk sources and factors are set out in **Annex VI**, and the assessment takes into account the GDP compilation process according to the production approach. A **desk review² of the GNI inventory and the recent annual quality reports** of Member States represents the main information to be used to perform this detailed **qualitative** assessment of inherent risks. Control risks³ are not taken into account because of the limited reliance on supervisory and control systems for the compilation of national accounts by the NSIs of Member States.
 - (b) A **matrix⁴** should be prepared in order to present the compilation of GDP components (under the production approach) and of GDP/GNI transitional items based on the following two elements: the risk assessment score (associated to risk weightings)⁵ and the size of the components in the economy (percentage of GDP/GNI component over total GNI). Multiplying the risk weighting by the size of each component, a **risk-size indicator** is determined. For the purpose of this audit, the above-mentioned indicator is calculated for each NACE (Rev. 1) activity and for transitional items. The cost–benefit analysis may also be applied to the expenditure and income approaches⁶.
 - (c) The benefits and costs in this analysis (**methodology**) should be established as follows: the ‘benefits’ are represented by the value of the risk-size indicator for the GDP/GNI components selected for in-depth verification, whereas the ‘costs’ are the opportunity-cost of the lack of in-depth verification of other GDP/GNI components. This latter is measured by the sum of the values attributed to the risk-size indicators of the GDP/GNI components **not** verified.

² If necessary an ‘information visit’ (in accordance with Article 6 of the GNI regulation) may be carried out to clarify the compilation process of national accounts.

³ Including also the risks derived from the functioning of the statistical production systems (i.e. see source of risk D in **Annex VI**).

⁴ The use of a similar risk matrix in planning GNI controls has also been proposed by Eurostat to address one of the recommendations made by its IAC in the report on the GNI statistical process issued in August 2011.

⁵ The Court’s auditors propose to use the following risk weightings: 100 for ‘very high’ risks, 75 for ‘high’ risks, 50 for ‘medium’ risks and 10 for ‘low’ risks.

⁶ This analysis should take into account the specific compilation procedures of the Member States.

- (d) In order to select the GDP/GNI components to be verified in depth, the Court proposes using a reference threshold as a general rule⁷ (**materiality criteria**): the components with a risk-size indicator value above the reference threshold will be selected, whereas those with a value below the reference threshold will **not** be selected. Exceptions to these quantitative criteria may be made in some justified cases in order to improve the effectiveness of the cost–benefit analysis.
- (e) **The number of GDP/GNI components** to be selected in each Member State depends on the staff resources available for verification.

STEP 2 — THE VERIFICATION PROCESS

- 6.** An in-depth verification of GDP/GNI components selected on the basis of the cost–benefit analysis (as described under step 1) should be carried out. The scope and the objectives of **in-depth verification** should be broader than those of direct verification carried out by Eurostat. Furthermore, a **risk-based approach** is applied in the context of in-depth verification as explained hereafter.
- **Scope:** the coverage of the verification is the whole compilation process of selected GDP/GNI components, including the examination of the quality of the basic data sources (primary data) even though belonging to NSI departments other than the one responsible for the national accounts or to other bodies providing statistical data.
 - **Objectives:** in addition to the objectives set out in Eurostat’s direct verification guidelines, in-depth verification also includes the examination of the compliance of the selected GDP/GNI components with ESA95.
 - **Approach:** starting from the reconstitution of the trail from aggregate to disaggregate level, the verification concentrates on the sub-components determined by those compilation sub-processes which are considered to represent a (very) high risk on the basis of risk assessment (see paragraph 5, point (a) of this Annex).

⁷ For the purpose of this audit, the threshold used to select GNI components for in-depth verification was 5. A desk review of Eurostat’s control files was carried out using a selection threshold of 2 for Member States visited on-the-spot and 5 for the other selected Member States.

7. In-depth verification of GDP/GNI components is carried out during 'control visits'⁸ to NSIs. A detailed **check-list** should be drawn up for the verification in order to cover the risks of the compilation process of national accounts (see **Annex VI**), and to ensure a consistent approach between Member States. The findings should be agreed with the NSIs but there is no need for the GNI Committee to approve the control visit reports⁹, as the overall evaluation of GNI data for each Member State is included in the assessment report which should be examined by the GNI Committee (see step 3).

STEP 3 — THE REPORTING

8. Reporting of the verification of GNI-based own resources should take place at three levels as described below.

ASSESSMENT REPORTS

9. These reports should include an overall assessment on the reliability, comparability and exhaustiveness of Member States' GNI data based on the application of the cost-benefit principle (see steps 1 and 2). These reports should describe at least the following:
- (a) background information;
 - (b) objective(s) and scope of the verification (i.e. main documents on which the examination is based);
 - (c) work carried out;
 - (d) findings;
 - (e) conclusion (overall assessment);
 - (f) qualifications.

⁸ In accordance with Article 19 of the own resources' regulation.

⁹ After taking into account of comments from the visited NSIs, these reports (when final) may be distributed to this Committee for information purposes.

- 10.** A standard text should be drawn up for the reports' conclusion. **Materiality criteria** (i.e. a percentage of the value of the component examined and/or of GNI) should be set to make the distinction between significant and insignificant findings resulting from in-depth verification. If the impact of all significant findings (i.e. qualifications) exceeds a defined reference threshold (e.g. 2 % of GNI), the overall assessment should be negative.

OPINION OF THE GNI COMMITTEE

- 11.** This opinion should take account of the verification carried out by the Commission in accordance with its control framework, and Eurostat's consistency checks on data and information provided by the Member States in their annual GNI questionnaires and quality reports.
- 12.** The opinion of the GNI Committee should cover at least the following issues:
- (a) background information and legal basis;
 - (b) objective(s) and scope of the verification (i.e. main documents on which the examination is based);
 - (c) work carried out;
 - (d) (general and specific) reservations and other significant findings;
 - (e) conclusion (opinion);
 - (f) qualifications.
- 13.** It should be **positive, negative or positive with qualification(s)**. An opinion should be qualified where there are existing general reservations and/or (material) specific reservations, or where significant findings are revealed from the checks made by Eurostat on the GNI questionnaires and quality reports. If the qualifications do not allow a positive opinion to be issued (see paragraph 10 of this annex), the underlying GNI data should only be considered for the calculation of GNI-based own resources where the Commission duly justifies their use.

14. The proposed standard text for this opinion is presented in **Box 1**.

BOX 1 — PROPOSED STANDARD TEXT FOR THE ANNUAL GNI COMMITTEE OPINION

Taking into account the objectives and scope of the verification of GNI data (see) and based on the work carried out by Eurostat (see), the GNI Committee issues its opinion [in compliance with Article 5(2)(b) of the GNI regulation] that the use of data included in the [YEAR] GNI questionnaires and quality reports of Member States for own resources is appropriate/**is not** appropriate. [However, ... the following issues qualify the opinion ... e.g. (general and/or specific) reservations on GNI data have been set in accordance with Article 10(7) of Regulation (EC, Euratom) No 1150/2000 ...].

ANNUAL ACTIVITY REPORTS (AARS)

15. Eurostat and DG Budget should both describe in their AARs (in Part 1 'Policy achievements', Part 2 'Management and internal control systems' and/or Part 3 'Building blocks towards the declaration of assurance'¹⁰) the verification of GNI-based own resources¹¹, providing relevant information on the use of resources in accordance with the principle of sound financial management.
16. As authorising officer by delegation for GNI-based own resources, DG Budget should also include appropriate evidence (e.g. indicators on legality and regularity) in order to support its own **declaration** of assurance (i.e. Part 4 of the AARs) on the management of GNI-based own resources.

¹⁰ These parts are defined by the Commission's internal guidelines on the preparation of the 2011 AAR. Similar sections have been set in the guidelines for the previous years.

¹¹ In particular, the calculation of Member States' contributions, the allocation of responsibilities within the Commission (including the role of the GNI Committee), the scope and objectives of the verification carried out by Eurostat and DG Budget, and the Commission's management of GNI reservations.

- 17.** As regards the quality of GNI data used to make the calculations of own resources, Eurostat should provide DG Budget with an annual overall assessment on GNI data to allow the latter to underpin its declaration. Alternatively, Eurostat could provide assurance in its AARs on the quality of GNI data to be used for own resources, and DG Budget could refer to this building block towards the declaration of assurance in its AARs.
- 18.** The annual opinion of the GNI Committee may be used as a source of assurance, provided that its contents are clear and that the overall conclusion is unambiguous.
- 19.** The scope of the declaration should be clarified in the DG Budget AAR so as to present a true and fair view on both the legality and regularity of the underlying transactions and sound financial management for GNI-based own resources. The proposed text for clarifying the scope of the declaration is set out in **Box 2**.

BOX 2 — SCOPE OF THE DECLARATION ON GNI-BASED OWN RESOURCES

- (a) The assurance is given on the calculation of GNI-based own resources of the current year which is made using forecast data (in accordance with Article 5 of Regulation No 1150/2000) to be revised in the following years, and on the calculation of the balances¹² and of adjustments¹³ to balances of GNI-based own resources of previous years (Article 10(6) and Article 10(7) of Regulation No 1150/2000);
- (b) Member States' GNI data of a given year can still be revised up to 4 years later. In addition, the existence of general and specific reservations allows these data to be modified beyond this period;
- (c) The assessment of the quality of GNI data is based on Eurostat's verification, as described in Parts 1 and 2 of the AAR, and the basis of the assurance is described in Part 3¹⁴;
- (d) The GNI Committee issued its annual (positive, negative or positive with qualification(s)) opinion on the appropriateness of GNI data for own resource purposes on ..., taking into account the cost-benefit principle.

¹² These are obtained in the year $n + 1$ by comparing the (provisional) actual GNI data of year n provided by Member States in the GNI questionnaires with the corresponding forecast GNI data used for the establishment of the budget of the same year.

¹³ These are obtained in the years $n + 2$ onwards by comparing the improved (final) actual GNI data of year n with the corresponding actual GNI data for the same year provided by Member States in the GNI questionnaires for the previous years.

¹⁴ See paragraphs 15 to 18 of this annex.

RISK ASSESSMENT MATRIX USED BY THE COURT

| SOURCES OF RISK | RISK FACTORS Per each GDP component (i.e. NACE activities) and GDP/GNI transitional items) | RISK ASSESSMENT (Low, medium, high, very high) |
|--|---|--|
| (A) Quality of statistical sources | (A1) Inadequacy of the source for the measurement of activities and/or transactions in national accounts in terms of coverage of the universe, and completeness and detail of the variables available. | Overall assessment for risk source A per each GDP/GNI component |
| | (A2) Unavailability of updated sources. | |
| | (A3) Lack of control and quality indicators accompanying the sources (e.g. service level agreements, quality reports, ad hoc surveys). | |
| (B) Quality of statistical methods | (B1) Methods applied to measure activities and/or transactions in national accounts do not comply with ESA95. | Overall assessment for risk source B per each GDP/GNI component |
| | (B2) The methods recommended by the GNI Committee and/or by Eurostat for the valuation of specific issues are not fully applied. | |
| | (B3) Inappropriate use of 'indirect' methods. | |
| | (B4) Lack of specific methods to capture the non-observed economy for purposes of exhaustiveness. | |
| (C) Determination of statistical estimates and recording in national accounts in compliance with ESA95 | (C1) The calculation of national accounts' activities and/or transactions does not comply with ESA95. | Overall assessment for risk source C per each GDP/GNI component |
| | (C2) Data validation and other (explicit cut-off, explicit exhaustiveness and balancing) adjustments are not made appropriately so as to obtain estimates complying with ESA95. | |
| | (C3) Variables of the statistical sources are not correctly classified for the measurement of ESA95 activities and/or transactions. | |
| | (C4) The allocation among institutional sectors and/or units of activities and/or transactions in national accounts does not comply with ESA95 (with a potential impact on GNI). | |
| (D) Functioning of the statistical production systems (including organisational arrangements) | (D1) Lack of adequate resources in the national accounts' department(s) (e.g. staff number, and specific experience and knowledge of ESA95). | Overall assessment for risk source D for the compilation of national accounts ¹ |
| | (D2) Lack of independence of staff/management in the national accounts' department(s). | |
| | (D3) Weaknesses in the planning and in the allocation of tasks (e.g. production of data releases) within the NSI. | |
| | (D4) Lack of standardised information systems supporting the determination of estimates, and recording of activities and/or transactions in national accounts. | |
| | (D5) Inadequate coordination between: <ul style="list-style-type: none"> — national accounts' department(s) and other departments of the NSI in charge of thematic statistics used in national accounts; and — national bodies (national central bank, NSI and ministries) when the responsibility for the compilation is shared. | |

¹ In the context of the performance of the risk assessment for the compilation of national accounts in Member States, the risk source D was not taken into account as it refers to supervisory and control systems whose functioning was not the scope of this audit.

Source: ECA.

USE OF THE MATRIX AND PROCEDURE FOR RISK ASSESSMENT

1. A qualitative risk assessment of the compilation procedures was carried out on the basis of the information available in Eurostat, in particular that described in the GNI inventory and recent GNI quality reports of Member States.
2. In order to carry out this exercise, the risk factors described above have been in some cases broken down into more detailed sub-factors¹. Specific criteria were established for each risk factor and/or sub-factor in order to determine the cases where the associated risk should be assessed as Low (L), Medium (M), High (H) or Very High (VH).
3. For example, as regards the risk factor A2 'Unavailability of updated sources', the risk assessment is made as follows:
 - **Very High:** when the source is not updated and refers to a very old reference year;
 - **High:** when the reference year of the source does not correspond to the reference year of the final data under analysis **and** the update is not regular;
 - **Medium:** when the reference year of the source does not correspond to the reference year of the final data under analysis **or** the update is not regular;
 - **Low:** when the reference year of the source corresponds to the reference year of the final data under analysis and the update is regular.
4. In case of insufficient and/or no information available on the compilation of the GNI component in any of the risk factors, the related risk assessment is considered to be High or Very High depending on the importance of the compilation issues not described in a complete and clear manner.
5. The use of this matrix allows the determination of a detailed assessment for each risk sub-factor, factor and source of risk. An overall risk assessment is made for each GNI component (i.e. GDP component or GDP/GNI transitional item) (see **Annex VII**). This latter assessment represents the main input for the performance of the cost–benefit analysis (see **Annex VIII**).

¹ Risk factor A1 is divided into two sub-factors: (a) coverage of the universe and (b) completeness and detail of the variables available; risk factor C1 is divided into two sub-factors: (a) estimates obtained through indirect methods and (b) conceptual adjustments; risk factor C2 is divided into three sub-factors: (a) data validation and balancing adjustments, (b) explicit cut-off adjustments and (c) explicit exhaustiveness adjustments.

THE COURT'S RISK ASSESSMENT

| Nace Rev. 1 sections | GNI components | Risk assessment in the selected Member States | | | | | | | | | |
|--|--|---|---------|-------|--------|-------|-------------|---------|--------|--------|----------------|
| | | Belgium | Germany | Spain | France | Italy | Netherlands | Austria | Poland | Sweden | United Kingdom |
| A | Agriculture, hunting and forestry | H | H | M | H | M | M | M | H | M | H |
| B | Fishing | M | H | H | H | H | H | M | H | M | VH |
| C | Mining and quarrying | L | M | M | L | M | H | H | H | M | H |
| D | Manufacturing | H | M | M | M | H | M | H | H | H | H |
| E | Electricity, gas and water supply | M | M | L | L | M | M | H | M | M | L |
| F | Construction | H | H | M | H | H | H | H | H | H | H |
| G | Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods | H | H | H | M | H | H | H | H | H | H |
| H | Hotels and restaurants | H | H | H | VH | H | H | H | H | H | H |
| I | Transport, storage and communication | H | M | M | M | M | H | H | H | H | H |
| J | Financial intermediation | L | L | L | L | L | M | M | H | M | H |
| K | Real estate, renting and business activities | H | H | H | H | H | H | H | H | H | H |
| L | Public administration and defence; compulsory social security | L | M | L | M | M | M | M | H | M | M |
| M | Education | M | H | M | H | M | H | H | H | H | H |
| N | Health and social work | H | H | VH | H | H | H | H | VH | M | H |
| O | Other community, social and personal service activities | H | VH | H | H | H | H | H | H | H | H |
| P | Private households with employed persons | VH | M | M | M | H | M | H | H | H | H |
| Q | Extra-territorial organisations and bodies | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Gross value added (GVA) | | | | | | | | | | | |
| — | Taxes on products | M | L | L | H | M | M | M | H | M | M |
| — | Subsidies on products | M | H | L | M | M | M | VH | H | H | H |
| Gross domestic product (GDP) | | | | | | | | | | | |
| Transitional items | CoE received from RoW | H | H | H | H | H | M | M | H | M | H |
| | CoE paid to RoW | H | M | M | H | H | M | M | H | M | H |
| | PI received from RoW | H | H | H | H | H | H | H | H | H | H |
| | PI paid to RoW | M | H | M | M | H | H | H | H | H | H |
| | Taxes on production and imports paid to EU | VH | L | L | L | L | L | L | VH | L | M |
| | Subsidies granted from EU | VH | H | M | VH | VH | H | VH | VH | H | H |
| Gross National income (GNI) | | | | | | | | | | | |
| — | FISIM ¹ | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| GNI for own resource purpose (OR) | | | | | | | | | | | |

Legend: 'L' stands for 'Low', 'M' stands for 'Medium', 'H' stands for 'High' (yellow), 'VH' stands for 'Very High' (red), and 'N/A' stands for 'Not Applicable' or 'Not Assessed'.

¹ FISIM have only been included in the compilation of GNI to be used for own-resource purposes since the year 2010. As this audit covers the Commission's verification of GNI data for the period 2002–07, the compilation of this component was not assessed.

Source: ECA (based on the examination of Member States' GNI inventories).

RESULTS OF THE RISK ASSESSMENT

1. This exercise allowed the GNI components whose compilation is subject to higher risk of non-compliance with ESA95 to be identified. All areas with an overall risk assessment of Low or Medium are not expected to be examined in depth, except in those limited cases where their relative size in the economy is very significant¹.
2. The Court's qualitative risk assessment results from the use of the matrix and related procedure illustrated in **Annex VI**. For the five Member States visited on-the-spot, a short explanation is given below on the reasoning used to assess the compilation of GNI components as Very High risk.
3. In the case of Germany, there is insufficient information on the completeness of the sources used to estimate a significant part of the gross value added (GVA) produced in NACE O (Rev. 1) 'Other community, social and personal service activities'. The description of all adjustments made does not allow an assessment of the estimation process.
4. In the case of Spain, the quality of sources used to estimate a significant part of the GVA produced in NACE N (Rev. 1) 'Health and social work' is insufficient. Furthermore, key information on the compilation process is not adequately disclosed (e.g. methods, adjustments and translation of the variables from the sources into ESA95 transactions).
5. In the case of France, the description of the estimation of NACE H (Rev. 1) 'Hotels and restaurants' does not include sufficient information on the exhaustiveness adjustments which are expected to be significant. No details are disclosed on the subsidies granted by the EU.
6. In the case of Italy, no details are disclosed on the subsidies granted by the EU.
7. In the case of the United Kingdom, the information provided on the compilation of NACE B (Rev. 1) 'Fishing' is not detailed, in particular as regards the adjustments made in national accounts and the translation of the variables from the sources into ESA95 transactions. However, this activity was not examined in the context of the audit because of its very limited size in the economy.

¹ E.g. at least 10 % of GNI for components assessed as medium risk.

THE COURT'S COST-BENEFIT ANALYSIS

| GNI components (NACE rev. 1 section) | Belgium | | Germany | | Spain | | France | |
|---|---------|----------|---------|---------|--------|---------|---------|---------|
| | Size | RSI | Size | RSI | Size | RSI | Size | RSI |
| | R(M) | | R(M) | | R(M) | | R(M) | |
| Agriculture (A) | 1,0 % | 0,7 | 1,1 % | 0,9 | 3,8 % | 1,9 | 2,1 % | 1,6 |
| | H(75) | | H(75) | | M(50) | | H(75) | |
| Fishing (B) | 0,0 % | 0,0 | 0,0 % | 0,0 | 0,2 % | 0,2 | 0,1 % | 0,1 |
| | M(50) | | H(75) | | H(75) | | H(75) | |
| Mining (C) | 0,1 % | 0,0 | 0,3 % | 0,1 | 0,3 % | 0,1 | 0,1 % | 0,0 |
| | L(10) | | M(50) | | M(50) | | L(10) | |
| Manufacturing (D) | 15,4 % | 11,6 | 20,9 % | 10,4 | 17,0 % | 8,5 | 12,7 % | (i) 6,3 |
| | H(75) | | M(50) | | M(50) | | M(50) | |
| Electricity (E) | 2,1 % | 1,1 | 1,7 % | 0,8 | 1,8 % | 0,2 | 1,5 % | 0,2 |
| | M(50) | | M(50) | | L(10) | | L(10) | |
| Construction (F) | 4,3 % | 3,2 | 4,7 % | 3,5 | 7,6 % | 3,8 | 4,8 % | 3,6 |
| | H(75) | | H(75) | | M(50) | | H(75) | |
| Wholesale and retail trade (G) | 11,4 % | 8,5 | 10,1 % | 7,5 | 10,2 % | 7,7 | 9,9 % | 5,0 |
| | H(75) | | H(75) | | H(75) | | M(50) | |
| Hotels and restaurants (H) | 1,5 % | 1,1 | 1,5 % | 1,1 | 7,0 % | (i) 5,2 | 2,1 % | (i) 2,1 |
| | H(75) | | H(75) | | H(75) | | VH(100) | |
| Transport (I) | 7,2 % | 5,4 | 5,0 % | (i) 2,5 | 6,7 % | (i) 3,3 | 5,7 % | (i) 2,9 |
| | H(75) | | M(50) | | M(50) | | M(50) | |
| Financial intermediation (J) | 5,2 % | 0,5 | 3,8 % | 0,4 | 4,2 % | 0,4 | 4,5 % | 0,4 |
| | L(10) | | L(10) | | L(10) | | L(10) | |
| Real estate, renting and business (K) | 19,5 % | (i) 14,6 | 21,2 % | 15,9 | 13,6 % | 10,2 | 23,6 % | 17,7 |
| | H(75) | | H(75) | | H(75) | | H(75) | |
| Public administration (L) | 6,6 % | 0,7 | 5,8 % | (i) 2,9 | 5,7 % | 0,6 | 6,9 % | (i) 3,4 |
| | L(10) | | M(50) | | L(10) | | M(50) | |
| Education (M) | 5,9 % | 3,0 | 4,1 % | 3,1 | 4,5 % | (i) 2,2 | 5,1 % | 3,8 |
| | M(50) | | H(75) | | M(50) | | H(75) | |

 Components selected by the Court for both in-depth verification and desk review in the five visited Member States

 Components selected by the Court for desk review in the five Member States which were not visited

 Components selected by the Court only for desk review in the five visited Member States

Legend:

- 'Size': relative size of the component as a share of GNI.
- 'R': risk assessment (see **Annex VII**).
- 'M': risk weighting.
- 'RSI': risk-size indicator.
- 'L', 'M', 'H', 'VH', 'N/A' and 'FISIM': see **Annex VII**.

Source: ECA.

| Italy | | Netherlands | | Austria | | Poland | | Sweden | | United Kingdom | |
|--------|---------|-------------|------|---------|---------|--------|----------|--------|------|----------------|---------|
| Size | RSI | Size | RSI | Size | RSI | Size | RSI | Size | RSI | Size | RSI |
| R(M) | | R(M) | | R(M) | | R(M) | | R(M) | | R(M) | |
| 2,4 % | 1,2 | 2,2 % | 1,1 | 1,7 % | 0,9 | 4,1 % | 3,0 | 0,9 % | 0,5 | 0,6 % | 0,4 |
| M(50) | | M(50) | | M(50) | | H(75) | | M(50) | | H(75) | |
| 0,1 % | 0,1 | 0,1 % | 0,1 | 0,0 % | 0,0 | 0,0 % | 0,0 | 0,0 % | 0,0 | 0,0 % | 0,0 |
| H(75) | | H(75) | | M(50) | | H(75) | | M(50) | | VH(100) | |
| 0,4 % | 0,2 | 2,5 % | 1,9 | 0,4 % | 0,3 | 2,0 % | 1,5 | 0,4 % | 0,2 | 2,2 % | 1,6 |
| M(50) | | H(75) | | H(75) | | H(75) | | M(50) | | H(75) | |
| 18,9 % | 14,2 | 13,0 % | 6,5 | 17,7 % | 13,3 | 14,9 % | (i) 11,1 | 17,3 % | 13,0 | 11,8 % | 8,9 |
| H(75) | | M(50) | | H(75) | | H(75) | | H(75) | | H(75) | |
| 1,8 % | 0,9 | 1,2 % | 0,6 | 2,3 % | 1,7 | 3,4 % | 1,7 | 2,6 % | 1,3 | 1,3 % | 0,1 |
| M(50) | | M(50) | | H(75) | | M(50) | | M(50) | | L(10) | |
| 4,5 % | 3,4 | 5,0 % | 3,8 | 6,6 % | (i) 5,0 | 5,7 % | 4,3 | 4,0 % | 3,0 | 5,6 % | 4,2 |
| H(75) | | H(75) | | H(75) | | H(75) | | H(75) | | H(75) | |
| 11,5 % | 8,6 | 12,0 % | 9,0 | 11,8 % | 8,9 | 17,9 % | (i) 13,5 | 9,9 % | 7,4 | 10,4 % | 7,8 |
| H(75) | | H(75) | | H(75) | | H(75) | | H(75) | | H(75) | |
| 3,5 % | (i) 2,6 | 1,7 % | 1,3 | 4,1 % | 3,1 | 1,1 % | 0,8 | 1,3 % | 1,0 | 2,6 % | (i) 2,0 |
| H(75) | | H(75) | | H(75) | | H(75) | | H(75) | | H(75) | |
| 6,6 % | 3,3 | 6,3 % | 4,7 | 6,5 % | 4,9 | 6,7 % | (i) 5,0 | 6,0 % | 4,5 | 6,5 % | (i) 4,8 |
| M(50) | | H(75) | | H(75) | | H(75) | | H(75) | | H(75) | |
| 4,2 % | 0,4 | 5,4 % | 2,7 | 4,8 % | 2,4 | 3,8 % | 2,8 | 3,9 % | 2,0 | 6,4 % | (i) 4,8 |
| L(10) | | M(50) | | M(50) | | H(75) | | M(50) | | H(75) | |
| 18,1 % | 13,5 | 18,8 % | 14,1 | 16,4 % | 12,3 | 12,8 % | 9,6 | 18,0 % | 13,5 | 20,8 % | 15,6 |
| H(75) | | H(75) | | H(75) | | H(75) | | H(75) | | H(75) | |
| 5,3 % | (i) 2,7 | 6,2 % | 3,1 | 5,4 % | 2,7 | 5,8 % | 4,4 | 5,1 % | 2,6 | 4,8 % | (i) 2,4 |
| M(50) | | M(50) | | M(50) | | H(75) | | M(50) | | M(50) | |
| 4,4 % | (i) 2,2 | 3,9 % | 2,9 | 4,9 % | 3,6 | 4,3 % | 3,2 | 5,1 % | 3,9 | 5,2 % | 3,9 |
| M(50) | | H(75) | | H(75) | | H(75) | | H(75) | | H(75) | |

| GNI components (NACE rev. 1 section) | Belgium | | Germany | | Spain | | France | |
|---|---------|---------|---------|----------|---------|---------|--------|---------|
| | Size | RSI | Size | RSI | Size | RSI | Size | RSI |
| | R(M) | | R(M) | | R(M) | | R(M) | |
| Health and social work (N) | 6,1 % | (i) 4,6 | 6,1 % | 4,6 | 4,6 % | (i) 4,6 | 7,3 % | 5,5 |
| | H(75) | | H(75) | | VH(100) | | H(75) | |
| Other community, social activities (O) | 2,0 % | 1,5 | 4,5 % | (i) 4,5 | 3,3 % | 2,4 | 3,2 % | 2,4 |
| | H(75) | | VH(100) | | H(75) | | H(75) | |
| Private households with employed persons (P) | 0,3 % | 0,3 | 0,3 % | 0,2 | 0,9 % | 0,5 | 0,5 % | 0,2 |
| | VH(100) | | M(50) | | M(50) | | M(50) | |
| Extra-territorial organisations (Q) | 0,0 % | 0,0 | 0,0 % | 0,0 | 0,0 % | 0,0 | 0,0 % | 0,0 |
| | N/A | | N/A | | N/A | | N/A | |
| Gross value added (GVA) | | | | | | | | |
| Taxes on products | 11,3 % | (i) 5,7 | 10,6 % | 1,1 | 10,8 % | 1,1 | 11,2 % | 8,4 |
| | M(50) | | L(10) | | L(10) | | H(75) | |
| Subsidies on products | 0,9 % | 0,5 | 0,5 % | 0,4 | 1,2 % | 0,1 | 1,2 % | 0,6 |
| | M(50) | | H(75) | | L(10) | | M(50) | |
| Gross domestic product (GDP) | | | | | | | | |
| Transitional items | 1,4 % | (i) 3,5 | -1,0 % | (i) -0,2 | -0,9 % | (i) 0,4 | 0,6 % | (i) 1,9 |
| | (ii) | | (ii) | | (ii) | | (ii) | |
| Gross National income (gni) | | | | | | | | |
| FISIM (Impact) | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| GNI used for own resources purposes (OR) | | | | | | | | |

 Components selected by the Court for both in-depth verification and desk review in the five visited Member States

 Components selected by the Court for desk review in the five Member States which were not visited

 Components selected by the Court only for desk review in the five visited Member States

Legend:

- 'Size': relative size of the component as a share of GNI.
- 'R': risk assessment (see **Annex VII**).
- 'M': risk weighting.
- 'RSI': risk-size indicator.
- 'L', 'M', 'H', 'VH', 'N/A' and 'FISIM': see **Annex VII**.

Source: ECA.

| Italy | | Netherlands | | Austria | | Poland | | Sweden | | United Kingdom | |
|--------|----------|-------------|---------|----------|----------|---------|---------|--------|---------|----------------|---------|
| Size | RSI | Size | RSI | Size | RSI | Size | RSI | Size | RSI | Size | RSI |
| R(M) | | R(M) | | R(M) | | R(M) | | R(M) | | R(M) | |
| 4,8 % | 3,6 | 6,7 % | 5,0 | 5,3 % | 4,0 | 3,8 % | (i) 3,8 | 10,1 % | 5,0 | 6,4 % | 4,8 |
| H(75) | | H(75) | | H(75) | | VH(100) | | M(50) | | H(75) | |
| 2,7 % | 2,0 | 2,7 % | 2,1 | 3,7 % | 2,8 | 3,5 % | 2,7 | 3,2 % | 2,4 | 4,2 % | (i) 3,2 |
| H(75) | | H(75) | | H(75) | | H(75) | | H(75) | | H(75) | |
| 0,8 % | 0,6 | 0,4 % | 0,2 | 0,0 % | 0,0 | 0,5 % | 0,4 | 0,0 % | 0,0 | 0,4 % | 0,3 |
| H(75) | | M(50) | | H(75) | | H(75) | | H(75) | | H(75) | |
| 0,0 % | 0,0 | 0,0 % | 0,0 | 0,0 % | 0,0 | 0,0 % | 0,0 | 0,0 % | 0,0 | 0,0 % | 0,0 |
| N/A | | N/A | | N/A | | N/A | | N/A | | N/A | |
| 11,9 % | (i) 6,0 | 12,0 % | (i) 6,0 | 12,2 % | (i) 6,1 | 12,0 % | (i) 9,0 | 13,2 % | (i) 6,6 | 11,4 % | (i) 5,7 |
| M(50) | | M(50) | | M(50) | | H(75) | | M(50) | | M(50) | |
| 1,2 % | 0,6 | 0,9 % | 0,4 | 2,2 % | (i) 2,2 | 0,2 % | 0,1 | 0,5 % | 0,3 | 0,4 % | 0,3 |
| M(50) | | M(50) | | VH (100) | | H(75) | | H(75) | | H(75) | |
| -0,8 % | (i) -0,1 | 0,8 % | (i) 1,0 | -0,8 % | (i) -0,3 | -0,4 % | -0,3 | -0,2 % | (i) 0,1 | 1,7 % | (i) 1,3 |
| (ii) | | (ii) | | (ii) | | (ii) | | (ii) | | (ii) | |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Comments:

1. The risk-size indicator is obtained by multiplying the relative size of the component in GNI by the results of the risk assessment. For the latter, the following risk weightings were used: 100 for Very High risk, 75 for High risk, 50 for Medium risk and 10 for Low risk. Small rounding differences may occur in the calculation of the RSI.
2. The general threshold used to select GNI components for in-depth verification in the five visited Member States is 5. For the desk review of Eurostat's control files, the general threshold is 2 for the five visited Member States, and 5 for the other five selected Member States not visited.
3. Exceptions (i) are made in the following cases to improve the quality of the cost-benefit analysis.
 - These components, even though eligible according to the threshold set, were not selected because: Eurostat carried out direct verification, they are covered by Commission's reservations, they have the lowest RSI and/or none of their sub-processes were assessed by the Court as High or Very High risk.
 - These components, even though not eligible according to the threshold set, were selected because: they were assessed by the Court as Very High risk (with a minimum RSI of 2 %) and/or they have the highest RSI.
4. Transitional items are obtained as follows: compensation of employees and property income received from the rest of the world + compensation of employees and property income paid to the rest of the world – taxes on production and imports paid to EU + subsidies granted from EU. The value of RSI disclosed for 'transitional items' is obtained by the sum of the RSI of the underlying components. The cost-benefit analysis was however carried out at individual level.
5. For details on the risk assessment (ii), see **Annex VII**.

RESULTS OF THE COST–BENEFIT ANALYSIS

1. A risk-size indicator is determined for all GNI components in the 10 Member States under review by multiplying the relative size of the GNI component by the weighting obtained from the risk assessment (see **Annex VII**).
2. The resulting risk-size indicator prioritises the GNI components to be verified in each Member State, and facilitates comparisons over time for each Member State and/or between Member States. The total value of the risk-size indicator for a given Member State, calculated by the sum of the values of these indicators for all GNI components, may vary between 10 and 100.
3. Based on the general thresholds set, this analysis allowed the Court to select the GNI components to be examined through in-depth verification and/or desk review in the Member States. Some exceptions were made in order to improve the effectiveness of the cost–benefit analysis¹.
4. For example, in the case of Belgium which was not visited on-the-spot, the Court selected for desk review the GNI components of NACE D (Rev. 1) ‘Manufacturing’, NACE (Rev. 1) G ‘Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods’ and NACE I (Rev. 1) ‘Transport, storage and communication’ because the respective risk-size indicator exceeded 5.
5. The activity of NACE N (Rev. 1) ‘Health and social work’ was also selected in order to have a total of four GNI components because it had the highest risk-size indicator value (albeit below 5). The activity of NACE K (Rev. 1) ‘Real estate, renting, and business activities’ was excluded because Eurostat carried out direct verification on this GNI component.
6. A similar procedure was applied in the other Member States, even those visited on-the-spot where in-depth verification and desk review of GNI components were carried out by the Court. For these five Member States, two different materiality thresholds were used for the selection (i.e. 5 for in-depth verification and 2 for desk review).

¹ See components highlighted by the note (i) in the table and related comments.

COUNTRY-SPECIFIC RESERVATIONS SET BY THE COMMISSION ON EU-25 MEMBER STATES

| Member States | Number of reservations | Subject of country-specific reservations for the period 2002–10 (EU-15 Member States) and for the period 2004–10 (EU-10 Member States) |
|----------------|------------------------|--|
| Belgium | 3 | (1) Update of estimates of hidden economy in construction; (2) Update of coefficients of adjustments for exhaustiveness; (3) Foreign trade statistics. |
| Czech Republic | 2 | (1) Dwelling services; (2) Tips. |
| Denmark | 1 | (1) Dwelling services. |
| Germany | 2 | (1) Dwelling services; (2) Film, radio and TV originals. |
| Estonia | 2 | (1) Consumption of fixed capital (CFC) for roads, bridges, etc; (2) Entertainment, literary and artistic originals. |
| Ireland | 1 | (1) Losses to be included in the mixed income. |
| Greece | 8 | (1) Update of Structural Business Statistics (SBS) and employment data; (2) HBS (Household Budget Survey) data used in the expenditure approach to be reviewed; (3) Construction; (4) Value added (VA) on general government (GG); (5) Non-profit institutions serving households (NPISH); (6) Data on balance of payments (BoP) used for ships and maritime transport to be revised; (7) Dwelling services; (8) Further clarifications. |
| Spain | 3 | (1) Small tools; (2) Compensation of employees; (3) Subsidies from EU. |
| France | 2 | (1) Revised data on BoP; (2) Mutual funds. |
| Italy | 3 | (1) Net operating surplus (NOS) for work in progress to be added; (2) Holding gains and losses to be excluded from changes in inventories; (3) Rents on land. |
| Cyprus | 5 | (1) VAT fraud without complicity; (2) Own-account production of films, radio and TV originals; (3) Royalties to be used to value output of literary and artistic originals; (4) Own-account production of software; (5) Taxes and subsidies. |
| Latvia | 10 | (1) Own-account output; (2) Transfer costs for existing dwellings; (3) CFC of GG and NPISH; (4) Classification of non-profit institutions (NPI); (5) Entertainment, literary and artistic originals; (6) Non-life insurance services; (7) Software; (8) Exhaustiveness; (9) Balancing procedure; (10) Further clarifications. |
| Lithuania | 2 | (1) Full integration of supply and use tables; (2) Entertainment, literary and artistic originals. |
| Luxembourg | 2 | (1) Updating the adjustment on undeclared labour; (2) Own-account construction of dwellings. |
| Hungary | 10 | (1) Coverage and valuation of own-account gross fixed capital formation (GFCF); (2) Estimates for originals; (3) Treatment of recyclable waste; (4) Revision of VA on insurance, pension funds and financial intermediation; (5) Holding gains and losses to be excluded from changes in inventories and trade margins; (6) VA of sole proprietors in the households (HH) sector; (7) Cross-validation within supply and use tables; (8) Exhaustiveness; (9) CFC for roads, bridges, etc; (10) Further clarifications for a number of activities. |

| Member States | Number of reservations | Subject of country-specific reservations for the period 2002–10 (EU-15 Member States) and for the period 2004–10 (EU-10 Member States) |
|---------------------|------------------------|---|
| Malta | 8 | (1) Small tools; (2) Holding gains and losses to be excluded from changes in inventories; (3) Problems in the valuation of health services; (4) Own-account construction of dwellings; (5) Restaurants and bars; (6) Output and GFCF for film, radio and TV originals; (7) Insurance services; (8) Further clarifications on dwelling services. |
| Netherlands | 4 | (1) Updating own-account construction; (2) Reclassification of Euro-vignette as services; (3) Updating foreign trade statistics; (4) Updating imports and exports of government services. |
| Austria | 1 | (1) Clarifications on own-account software. |
| Poland | 11 | (1) Review of sources and methods used for the estimation of output; (2) Non-market producers' output; (3) Holding gains and losses to be excluded from changes in inventories; (4) Research and development; (5) Tips; (6) Imputed social contributions to be included in compensation of employees; (7) Taxes; (8) Exhaustiveness; (9) Treatment of withholding taxes in the cross-border interest and dividend flows; (10) Insurance; (11) Estimation of software (in particular the one for own-account). |
| Portugal | 3 | (1) Measurement and valuation of output for own-final use; (2) Need to investigate whether time profiles of GFCF can be used in the perpetual inventory method (PIM) model for calculating CFC; (3) Employers' social contributions for civil service pension scheme. |
| Slovenia | 3 | (1) Updating VA of agriculture; (2) Property Income (PI) of real estate; (3) CFC of GG and of dwellings activities. |
| Slovakia | 2 | (1) Treatment of reinsurance commissions; (2) GFCF and CFC of GG. |
| Finland | 1 | (1) Updating renovations within the construction activity. |
| Sweden | 4 | (1) Compensation of employees to/from the rest of the world (RoW); (2) Entertainment, literary and artistic originals; (3) Software; (4) Treatment of reinsurance commissions. |
| United Kingdom | 10 | (1) Dwelling services; (2) NPISH; (3) Exhaustiveness; (4) Own-account construction; (5) Insurance; (6) Cinematographic film originals; (7) Own-account software; (8) CFC for roads, bridges, etc; (9) Need to investigate the impact of the use of list prices on the purchase of new cars; (10) GNI data need to be reconciled with the nationally published data. |
| Total number | 103 | |

Source: ECA (based on the Commission's notifications of reservations to Member States).

REPLY OF THE COMMISSION

EXECUTIVE SUMMARY

IV.

The Commission has a well-established and multi-faceted verification system. It emphasises quality, peer review and has sufficient flexibility to deal with exceptional circumstances. The Commission will further develop its strategy for GNI verification to incorporate a more structured and formalised programme. This will include a risk analysis and take full account of cost-effectiveness. The Commission notes the model used by the Court and will consider which elements could be beneficial to this process.

The Commission considers that an evaluation of the staff resources needed is complex and has yet to be made.

V.

The Commission agrees that general reservations should be used as infrequently as possible. Yet they are an essential part of protecting EU financial interests and thus cannot be foregone completely.

The Commission's control system is also robust enough to accommodate major regular revisions, such as the incorporation of changes in basic data sources or new estimation methods.

VI. (a)

The Commission considers that it has a well-established risk-based procedure for planning and prioritising its work which includes the prior agreement of plans by the GNI Committee.

VI. (b)

The Commission applies the same verification methodology in all Member States. As agreed with the GNI Committee, direct verification is used as a supplement to the verification of each country's GNI inventory based on the GNI Inventory Assessment Questionnaire (GIAQ).

VI. (c)

The verification results have been reported to the GNI Committee which has considered this information sufficient to issue its opinion of the data.

REPLY OF THE COMMISSION

VII.

The Commission has examined each case quoted in the report in detail and does not share the view of the Court concerning a number of the findings the Court presents.

VIII. (a)

The Commission will further develop its strategy taking account of the findings of the audit, aiming at shorter verification cycles. The Commission in the meantime has implemented a policy restricting the use of general reservations.

VIII. (b)

The Commission is of the opinion that the approach it applied (desk checks of the GNI questionnaires and quality reports, the verification of GNI inventories using the GIAQ supplemented by a direct verification, with all steps subject to peer review) was appropriate for a final assessment of the Member States' GNI for own resources. However, the Commission will look into formalising explicitly the criteria to be used for selecting the components to be verified by direct verification and making other improvements in documentation.

VIII. (c)

The Commission's reporting on GNI verifications was continuously improved over the past years. Nevertheless, the Commission takes note of the Court's findings and agrees with the need to continue efforts to improve.

The Commission has always considered reporting to be adequate and compliant with the GNI regulation and that the annual opinion of the GNI Committee is sufficient. The Court's recommendation on the annual opinion will be put to the GNI Committee.

Elsewhere in this report the Court recognises the improvements that have already been made while recommendations made during the audit were taken into account in the most recent annual activity report.

The Commission considers that the opinions of the GNI Committee have always been appropriately used for budgetary purposes.

INTRODUCTION

Box — GNI reservations

General reservations can also be used if Member States do not comply with transmission deadlines.

OBSERVATIONS

28.

The Commission considers that it had a well-established risk-based procedure for planning and prioritising its work. The GNI Committee agreed the plans for the last verification cycle. The Commission in accordance with the GNI regulation uses a mainly qualitative approach for (cost-benefit) judgments on the potential size and significance of specific activities or transactions.

The Commission uses the cost-benefit principle to determine whether an action point needs to be made into a reservation and reported on this to the GNI Committee as soon as the verification cycle (including Bulgaria and Romania) was finished, presenting, in April 2013 a document regarding follow-up on action points not leading to a reservation. This represents the main utilisation by the Commission of the cost-benefit principle, i.e. helping to decide which open action points justified reservations and which points could be classified as other issues for follow-up.

29.

Work on the implementation of this recommendation is still ongoing. The Commission will also take into account the result of the Court's audit. A conclusion on the approach will have to be ready before the start of the next verification cycle which will commence after September 2015.

REPLY OF THE COMMISSION

32.

The Commission considers that the approach it applies (desk checks of the GNI questionnaires and quality reports, the verification of GNI inventories using the GIAQ supplemented by a direct verification, with all steps subject to peer review) is appropriate for a final assessment of the Member States' GNI for own resources.

34.

The Commission's control model requires a comprehensive qualitative analysis of the GNI inventories. Direct verification is only understood by the Commission and the GNI Committee as a supplement to the verification of the countries' GNI inventories based on the GNI Inventory Assessment Questionnaire (GIAQ). The principal objectives of direct verification are to verify whether the description of sources and methods in the inventory adequately reflects the compilation practice actually applied and whether the basic data as shown in the sources have been transformed in an appropriate way into the NA figures provided by the Member States for the GNI own resource. The comparability of methodology with other Member States is also taken into account.

Direct verification is not an appropriate basis for drawing conclusions on all parts of the GNI estimates as described in the inventory.

35.

The Commission's verification system requires a comprehensive qualitative analysis of the GNI inventories (supplemented by direct verification). It does not focus merely on components covered by action points of type A or those for which direct verification was carried out. The Commission is of the view that conclusions of this part of the Court's findings are based on an assumption that Eurostat concentrated its verification on the components covered by action points and those on which Eurostat carried out direct verification.

36.

The Commission is of the view that the conclusions of this part of the Court's findings are based on an assumption that Eurostat concentrated its verification on the components covered by action points and those on which Eurostat carried out direct verification.

38.

The Commission is committed to the equal treatment of Member States. All Member States' cases were individually assessed yet with full transparency towards the GNI Committee and a horizontal management overview.

39.

The Commission recognises that the documentation of its verifications should be improved and is working to that end.

40.

As is documented in mission reports, the Commission (Eurostat) selected the components/areas to be verified by direct verification using general criteria agreed by the GNI Committee deliberately taking into account the particularities of individual Member States.

The criteria agreed in the GNI Committee fully served their purpose and the Commission feels that the direct verification exercise allowed it to draw the conclusions expected from this supplementary tool. The direct verification did not, in general, identify a high risk of Member States incorrectly describing their calculation methods or having significant compilation errors in their calculations.

41.

As agreed by the GNI Committee, and in accordance with the provisions of Regulation (EC, Euratom) No 1150/2000, the scope of direct verification started when the data arrived at the national accounts department. The supervisory and control systems (SCS) are of an organisational nature. They give no specific indication of the reliability of the accounts, (which depends primarily on the statistical sources and methods used) although they may help mitigate the risk of errors. The Commission will pursue its efforts to develop SCS guidelines for the compilation of their national accounts by Member States, taking into account the observations made by the Court.

REPLY OF THE COMMISSION

42.

Given the key importance of peer review for GNI-based OR the Commission maintains that the most appropriate legal basis for visits to Member States is the GNI regulation (i.e. information visits with the participation of other Member States), followed by scrutiny in the GNI Committee. Furthermore, the expertise of those who compile the national accounts in Member States is invaluable to ensure comparability in other Member States.

43.

Once the draft country assessment reports have been accepted by the GNI Committee it is for the Commission, as stipulated in the own resource regulation, to set reservations without the approval of the country concerned or the GNI Committee. Reservations are set on the basis of a qualitative and quantitative assessment of each open point taking budgetary prudence into account. As national accounts is a complex system of checks and balances, the effect of individual components cannot be isolated so it is generally not possible to quantify accurately the potential impact of the reservations. The Commission is of the opinion that this approach is efficient in safeguarding the financial interests of the EU.

44.

Having examined the instances quoted in the report the Commission is of the opinion that it followed a consistent approach in setting reservations.

45.

Transversal reservations are used when an issue concerning the calculation of GNI exists, the resolution of which requires a detailed comparative analysis of the solutions adopted by Member States and may require agreement in the GNI Committee on conceptual aspects. The results of this comparative analysis might identify the need for changes in the calculation of GNI in order to ensure that GNI-based own resources contributions are determined correctly.

46.

Transversal issues call for detailed comparative analysis of the solutions adopted by Member States. At the end of 2012, the declarations made by Member States had not yet been verified. Further clarifications and discussions were needed in order to agree on an ESA95 compliant and comparable treatment. This process is now underway and the Commission is lifting reservations where appropriate.

47.

The Commission considers that the approach it applies (desk checks of the GNI questionnaires and quality reports, the verification of GNI inventories using the GIAQ supplemented by a direct verification, with all steps subject to peer review) is appropriate for a final assessment of the Member States' GNI for own resources.

48.

The Commission accepts that improvements to the documentation could be made. Please see the comments in the reply to paragraph 39.

50.

BRs are covered by the GIAQ. EDP units in Eurostat are responsible for the market/non-market tests, the results of which are closely monitored for own resources purposes by the GNI verification team.

Eurostat divides areas of responsibility to avoid duplication of effort. Documenting all the frequent and multifarious interdepartmental consultations and discussions would be too resource-intensive.

51.

For Germany, the Commission (Eurostat) identified the weaknesses, but noted that it was continuously improving and updating the BR and the cut-off adjustments. Therefore, this issue was deemed not to merit a reservation.

The issue of Austria's classification of public hospitals was not quantified until after the verification cycle was closed in January 2012. ESA95 is ambiguous regarding the recording of the significant cash flows disbursed by general government to public hospitals to cover their operating losses.

Statistics Austria applied ESA95 correctly for the years 2002–07 and there was no verification error on the part of the Commission.

REPLY OF THE COMMISSION

52.

This issue was confirmed after the verification cycle was closed as Statistics Austria did not perform the 50 % test on public hospitals until May 2013. The result prompted the Commission to take action to set a specific reservation on the issue.

53.

See Commission reply to paragraph 51 above.

54.

The Commission accepts that improvements to the documentation could be made. Please see the comments in the reply to paragraph 39.

55.

The Commission (Eurostat) will look into documentation when preparing the next verification cycle. The Commission is committed to business continuity but the scope of this audit goes back over a decade and much very detailed, and in some cases outdated information, was requested.

56.

The Commission (Eurostat) applied the procedures presented to and agreed on by the GNI Committee. When preparing the next verification cycle the Commission will take stock of the lessons learned during this verification cycle.

56. First indent

For reasons of cost-effectiveness, the focus of the Commission's verification model was the source actually used. Nevertheless, additional assessments were also made, in particular based on recommendations of the GNI Committee.

57.

The Commission has examined each case quoted in the report in detail and does not share the view of the Court concerning a number of the findings the Court presents in Table 1 (see detailed answers to paragraphs 59 to 63 below). The Commission does accept, inter alia, the recording of the vehicle registration tax in France, understatement of intermediate consumption for housing services in Italy and the potential incorrect recording of EU grants in Member States.

59. First indent

The Commission (Eurostat) was aware of these adjustments. Their potential sizes were reviewed regularly and were not considered to cause a major concern regarding the comparability, reliability and exhaustiveness of German national accounts (see also the Commission's reply to paragraph 51).

59. Second indent

The issue of exhaustiveness has been a cornerstone of the work on GNI for more than two decades and has therefore been addressed on many occasions prior to the latest verification when it was again verified and it will continue to be a priority for future cycles. At the conclusion of the previous verification cycle the calculation methods of the four Member States mentioned were considered acceptable.

59. Third indent

Germany's compliance with the recommendations of the GNP Committee adopted by the GNI Committee (GNIC/004) including that on distribution (GNPC/205) had been verified in the verification cycles prior to the latest round. Any reservations relating to distribution or the calculation of trade margins arising from these earlier verification cycles were resolved before the most recent cycle.

59. Fourth indent

Following an action point set by the Commission (Eurostat), INSEE reviewed the calculation of intermediate consumption for housing services provided by households and augmented the ratio. The work done by INSEE on intermediate consumption for housing services provided by households was verified by the Commission and accepted; hence this issue was not seen to merit a reservation for France.

The Commission accepts the finding that there is an understatement of IC for housing services in Italy.

59. Fifth indent

The Commission is of the view that up-to-date and appropriate data sources should be used by Spain. The Commission accepted the Spanish calculations which at the time the inventory was compiled in December 2007 were not deemed to be out of date. Their potential sizes were not considered to cause a major concern regarding the comparability, reliability and exhaustiveness of Spanish national accounts.

REPLY OF THE COMMISSION

59. Sixth indent

The Commission accepted the German, Spanish and French calculations. Their potential sizes and scope for error were not considered to cause a major concern regarding the respective comparability, reliability and exhaustiveness of German, Spanish or French national accounts.

59. Seventh indent

As concerns transition from output at producer prices to basic prices, the Commission investigated the issue during the GNI information visits in 2008 and 2009. This is reflected in the replies to the GIAQ and the correspondence with the ONS. In the light of the information obtained at that time, the Commission considered that the proper transition to basic prices was ensured to an acceptable degree of quality. However, given the Court's findings the Commission will follow up this issue with the ONS.

60.

The issue of exhaustiveness had been addressed in depth prior to the latest verification cycle, but was examined again. The German, Spanish, French and Italian calculation methods were accepted.

61.

The Commission will continue to strive to improve the quality of the estimates of the non-observed economy.

62.

The Commission is careful to treat all Member States equally, but equal treatment does not necessarily imply an examination of each reservation across all Member States.

Such systematic cross-country checks may be desirable, but are not always practical, considering the existing country specificities making such comparison more difficult.

63.

The Commission is of the opinion that Eurostat has followed a consistent approach with regard to setting reservations vs other points for improvement for the points mentioned here.

63. First indent

The situations in the two countries were different. The UK Annual Business Inquiry specified a cut-off value in the guidance notes to respondents. The Commission considered that this demonstrated an awareness of the requirements, and of the existence of measures within UK compilation practice to minimise the potential impact on GDP. Using the cost-benefit principle no reservation was set. However, as the details were not made available the action point became an 'other point for improvement'; which is being followed up. Where no appropriate measures were applied, as in Spain, the risk of a non-negligible impact on GDP was perceived as higher and thus a reservation was set.

63. Second indent

The situations were not fully comparable. The problems encountered in Spain were wider-ranging than those in the other Member States mentioned. The Commission agrees with the Court on the issue of suitable basic data necessary for correct recording, but is aware that not all Member States accept that there is a legally binding requirement to do so. The Commission intends to examine the issue in the next verification cycle.

63. Third indent

A specific reservation was set on the rents of land for Italy since ESA95, paragraph 4.73, could not be applied, unlike in Germany and Spain.

REPLY OF THE COMMISSION

63. Fourth indent

For Poland, the reservation related to concerns for software for own-final use more broadly (i.e. both market and non-market producers) than the case of no estimate for software for own-final use of non-market producers in Spain. Own-account software being mainly produced by market producers, the impact of this deficiency on GNI in the case of Spain is much smaller and the issue does not merit a reservation in the Commission's (Eurostat's) view.

64.

As in previous verification cycles, reservations were set on the basis of a qualitative and quantitative assessment of each open point and taking budgetary prudence into account. Once the draft country assessment reports have been accepted by the GNI Committee it is for the Commission, as stipulated in the own resources' regulation, to set reservations without the approval of the country concerned or the GNI Committee. Setting reservations requires an evaluation of all the nuances of the specific situation in a Member State at a particular time.

65.

Please refer to the response to paragraph 57.

66.

For the reasons stated in the replies to paragraphs 59 to 63, the Commission disagrees with the Court's opinion. The Commission has examined all the instances mentioned by the Court and has concluded that the only material finding relates to the understatement of intermediate consumption for housing services in Italy.

66. First indent

The Commission considers that the potential impact appears to be immaterial.

Please refer to its replies to paragraphs 57 and 66.

67.

The Commission notes that its own verification system, in the period under review, resulted in 103 specific reservations, six transversal reservations and many more action points. All of these are contributing to the improvements of the quality of GNI estimates and thus to a fair allocation of GNI resources.

69.

The results of the verification work were presented to the GNI Committee in July and October 2011. By early 2012, the Commission had decided which reservations to place. In any event given the structure of the own resources system it would have been 2006 before 2002 could possibly be considered finalised.

70.

The Commission's philosophy of 'peer review' requires full transparency before the GNI Committee, which, for reasons of resources, presently takes place twice per year.

The Commission's strategy has been formulated to provide assurance that Member States' systems are able to provide accurate, comparable and exhaustive data and that any deficiencies identified are remedied while the EU's financial interests are protected where those deficiencies may be significant. The assurance thus provided is not valuable only for the Commission but for all the Member States.

72.

Although from a legal perspective possible, the Commission considers the frequent use of general reservations undesirable, yet they remain essential to ensure the EU's financial interests are protected. The memorandum of understanding which governs the division of responsibilities for the management of GNI OR between DG Budget and Eurostat was expanded in April 2013, to ensure this point of view is clear.

73.

In April 2013, DG Budget and Eurostat signed an annex to their memorandum of understanding entitled 'Good practices concerning GNI reservations', which will improve the situation.

75.

No control risks arose as the necessary checks were made on the annual quality reports. Should any of these have proved insufficiently detailed then further clarifications were sought (and a country mission undertaken if needed): also an action point or a reservation would have been placed when necessary.

REPLY OF THE COMMISSION

76.

The new standard for the compilation of national accounts (ESA2010) was developed during the period covered by the audit. As its implementation will require Member States to produce fully revised GNI inventories, the GNI Committee decided that, for the revisions made in 2011 and later, updates of the inventories could be held over until after the implementation of ESA 2010.

77.

The Commission will review its communication procedures, taking the Court's comments into account.

79.

The Commission has provided details of its approach to country-specific points in reply to paragraph 43 and for transversal reservations in reply to paragraph 45.

80.

The Commission considers the assessment reports final after they were presented to the GNI Committee, which took note and supported the approach adopted by Eurostat for the assessment.

81.

The general approach behind the selection of points for follow-up has been explained in reply to paragraph 43.

81. First indent

The Commission has already detailed the response for not setting a reservation in reply to paragraph 51.

81. Second indent

The Commission (Eurostat) is following up this as another point for improvement. The issue was deemed not to merit a reservation.

81. Third indent

The Commission (Eurostat) is following up this as another point for improvement. The issue was deemed not to merit a reservation.

81. Fourth indent

The Commission (Eurostat) is following up this as another point for improvement. The issue was deemed not to merit a reservation.

82.

The Commission will look into further improving the assessment reports.

83.

The opinions were not precisely the same. For Greece in 2006 the GNI Committee was unable to determine whether the data was appropriate for own resources purposes and agreed that the previous year's data be used instead.

For the EU-10, the GNI Committee issued a statement which, whilst not a formal opinion, raised no concern about the appropriateness of the data for own resources purposes.

85.

Please refer to the responses to paragraph 83.

86.

The Commission will review its communication procedures, taking the Court's comments into account.

The GNI Committee's opinion has always been considered as adequate assurance and been equally accepted by technical experts on GNI and the users of the data.

87.

Whilst the Commission chairs the GNI Committee, it is composed of representatives of Member States. The Member States have adopted the opinions of the Committee by unanimity and have not questioned the work of the Commission (Eurostat) as an appropriate basis for the opinions.

88.

Suggestions for further improvements made by the Court during the audit were incorporated in the report for 2012 and the practice of reporting similar activities spanning all own resources globally reconsidered. However, necessarily the focus remains on the activity actually undertaken by DG Budget.

REPLY OF THE COMMISSION

89.

As the Court records elsewhere in this report, the split of responsibilities between DG Budget and Eurostat is clearly laid out in a memorandum of understanding. Data quality issues are primarily dealt with by the processes described exhaustively in this report within which Member States play a decisive role via the GNI Committee in evaluating the suitability of all the data submitted for GNI OR in the light of Eurostat's reports of its verification activities, within which the Member States also play a part.

90.

Acting on recommendations from the Court DG Budget's annual activity report for 2012 described the basis of DG Budget's assurance.

91.

In the 2012 annual activity report Eurostat provided information on GNI-based own resources in Part 1 'Policy achievements' and Part 3.1.3 'Follow-up of reservations'.

In Part 2 'Management and internal control systems' Eurostat published information on the working arrangements with DG Budget and a table (and footnotes) with 18 legality and regulatory indicators.

CONCLUSIONS AND RECOMMENDATIONS

93.

The Commission considers that an evaluation of the staff resources needed is complex and has yet to be made.

94.

Please refer to Commission's replies to paragraphs 68 to 76.

95.

Please refer to the replies in respect of paragraphs 26 to 36.

96.

Please refer to the replies in respect of paragraphs 37 to 67.

97.

Please refer to the replies in respect of paragraphs 77 to 92.

Recommendation 1

The Commission will further develop its strategy for GNI verification to incorporate a structured and formalised programme. This will include a risk analysis and take full account of cost-effectiveness. The Commission notes the model used by the Court and will consider which elements could be beneficial to this process.

Recommendation 2

The verification cycle under review took longer than anticipated because of the enlargement of the EU. The Commission agrees that the cycle could be shorter, but not at the expense of compromising the quality or increasing resources allocated to it.

The Commission agrees with the objective of limiting the use of general reservations. A new annex to the memorandum of understanding between DG Budget and Eurostat, 'Good practice covering GNI reservations' was signed in April 2013; this will reduce significantly the number of general reservations.

Recommendation 3

The Commission has established reporting procedures but agrees that further improvements can be made. The Commission uses the cost-benefit principle to determine whether an action point needs to be made into a reservation; this is reported to the GNI Committee.

Recommendation 4

The Commission considers that the qualitative assessments are of the utmost importance since the methodology used has to be reliable, comparable and exhaustive. This is the only way of establishing the risks involved in an objective manner. However, as the verification model develops, there will be more quantitative assessments, within the constraints of existing resources.

REPLY OF THE COMMISSION

Recommendation 5

The Commission encourages Member States to strive continuously for improvement. Exhaustiveness has been a major consideration in the GNP/GNI verification process since the early days and will always be so. The topic has been on the agenda of the GNI Committee on a number of occasions, most recently in October 2012, when the Committee concluded: 'It was generally acknowledged that national accounts in the ESS have attained a very high level of exhaustiveness for the coverage of legal activities in the underground economy and of undeclared work.'

Recommendation 6

The Commission agrees with this recommendation. This aspect will be improved.

Recommendation 7

The Commission agrees that it is desirable that reservations only cover material findings. However, reliable quantitative information is rarely available at the time a reservation is being set. The Commission endorses the need for transparency in explaining the grounds for deciding to pursue items under reservation or to retain them as other points for improvement. This cannot restrict the Commission's prerogative to set reservations to protect the EU's financial interests.

Recommendation 8

Interdepartmental contacts and meetings currently take place. However the Commission will look for further improvements within the context of the current administrative structure.

Recommendation 9

The Commission's (Eurostat's) reporting on GNI verification has been continuously improved over the past years. Nevertheless, the Commission takes note of the Court's findings and agrees with the need to continue efforts to improve.

The Commission has always considered reporting to be adequate and compliant with the GNI regulation and that the annual opinion of the GNI Committee is sufficient. The Court's recommendation on the annual opinion will be put to the GNI Committee.

Elsewhere in this report the Court recognises the improvements that have already been made while recommendations made during the audit were taken into account in the most recent annual activity report.

The Commission considers that the opinions of the GNI Committee have always been appropriately used for budgetary purposes.

98.

The Commission has a well-established verification system, in which it cooperates with Member States in an environment built on trust and emphasises quality. The Court's recommendations will be considered in the course of the forthcoming revision of the GNI regulation and the future development of the system that will follow, within the context of the Commission's resource constraints.

European Court of Auditors

Special Report No 11/2013

Getting the gross national income (GNI) data right: a more structured and better-focused approach would improve the effectiveness of the Commission's verification

Luxembourg: Publications Office of the European Union

2013 — 81 pp. — 21 × 29.7 cm

ISBN 978-92-9241-405-4

doi:10.2865/36059

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A SIGNIFICANT SHARE OF THE REVENUE IN THE EU BUDGET IS DERIVED FROM OWN RESOURCES CALCULATED ON THE BASIS OF MEMBER STATES' GROSS NATIONAL INCOME (GNI). EFFECTIVE VERIFICATION OF GNI DATA IS CRUCIAL TO ENSURE THAT MEMBER STATES' RESPECTIVE CONTRIBUTIONS ARE CORRECTLY AND FAIRLY CALCULATED. THE COURT'S AUDIT EXAMINED THE COMMISSION'S VERIFICATION OF THESE DATA FOR THE YEARS 2002 TO 2007 WHICH BECAME DEFINITIVE IN 2012. EVEN THOUGH THIS VERIFICATION MAY WELL IMPROVE THE QUALITY OF GNI DATA, THE COURT CONCLUDED THAT THIS VERIFICATION WAS NOT SUFFICIENTLY STRUCTURED AND FOCUSED TO BE FULLY EFFECTIVE.

THE COURT RECOMMENDS THAT THE COMMISSION FOCUSES ON MATERIAL AND RISKY GNI COMPONENTS, BASED ON A STRUCTURED AND FORMALISED PLANNING AND PRIORITISATION EXERCISE.



EUROPEAN COURT OF AUDITORS



Publications Office



ISBN 978-92-9241-405-4



9 789292 414054