

Background report to the resolution of the Contact Committee Task Force to explore the possibilities for cooperation with Eurostat and National Statistical Institutions

Copenhagen – Warsaw, September 2012

1. INTRODUCTION

- 1.1 In October 2011, the Contact Committee of the Heads of EU SAIs set up a Task Force to explore the possibilities for cooperation with Eurostat and National Statistical Institutions (NSIs). The Task Force was established on the basis of the Contact Committee's efforts to ensure efficient public auditing in response to the financial and economic crisis and highlighting the importance of reliable and timely information (including statistics) on the use of public funds. The Contact Committee asked the Task Force to report on the results of its work at the next CC meeting in 2012 (CC-R-2011-06). With the draft Contact Committee resolution and this background report, the Task Force completes the task assigned.
- 1.2 The Task Force was working under the chairmanship of the SAIs of Denmark and Poland. Its members were representatives of 16 EU SAIs (Austria, Bulgaria, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Italy, Latvia, Malta, the Netherlands, Poland, Portugal, Romania, Spain) and the European Court of Auditors.
- 1.3 This report informs the Contact Committee of the activities of the Task Force (section 2) and presents an overview firstly of the current state of play of relations between EU SAIs and Eurostat / NSIs (section 3) and secondly of the EU legislation and initiatives of Eurostat regarding government statistics that might have implications for the SAIs (section 4). Finally the report explains the Task Force's considerations concerning the possibilities for cooperation between EU SAIs and Eurostat / NSIs (section 5). The Task Force's concrete proposals for enhanced cooperation are included in the draft resolution presented by the Task Force for the Contact Committee's approval. This report thus provides the background for the draft Contact Committee resolution.
- 1.4 The main task of the Task Force was to explore the possibilities for cooperation and formulate concrete proposals for the Contact Committee to consider. The Task Force's

analysis shows however that the differences in mandates, national legislation and general audit approaches may make it difficult for some SAIs to adopt all the Task Force's recommendations on the cooperation between the SAIs and NSIs / Eurostat. Several SAIs have also underlined the independence of SAIs vis-à-vis national authorities as well as vis-à-vis the EU institutions.

1.5 As the relations between the SAIs and NSIs / Eurostat will keep developing, the Task Force suggests that the Contact Committee authorises the Liaison Officers to further monitor this area and to report to the Contact Committee when appropriate or in 2015 at the latest.

2. THE WORK OF THE TASK FORCE

2.1 In line with its mandate, the Task Force:

- gathered information on the up-to-date relations between the SAIs and Eurostat / NSIs (including legal requirements for such contacts) and analysed the experience;
- collected information on the present and draft EU legislation which can have impact on the SAIs' work, and made itself familiar with the Eurostat's initiatives towards the SAIs;
- considered potential areas of cooperation between the SAIs and Eurostat / NSIs;
- developed a draft Contact Committee resolution.

2.2 In February 2012, the Task Force distributed a questionnaire among the EU SAIs on their relations with the NSIs and Eurostat. The questions concerned the SAIs' audits of the NSIs, the role of SAIs in assuring the quality of data for statistical purposes, the use of statistical information from the NSIs and Eurostat, and cooperation with those institutions. 24 out of 27 SAIs responded to the questionnaire¹.

2.3 In March 2012, the Task Force Chairs suggested that the SAIs – members of the Task Force – establish contact and meet with their NSIs, and the Chairs provided the members with a guideline for topics to be discussed at the meeting. The meetings were held in 10 Member States as of June 2012².

2.4 Working contacts have also been established with Eurostat: the SAI of Poland (Task Force co-chair) participated in two meetings on quality management in government finance statistics (November 2011 and May 2012) attended by the representatives of Eurostat, and the NSIs and Ministries of Finance of the Member States. The Task Force co-chair was familiarised with the Eurostat's proposals regarding the SAIs' participation in the upstream data verification and with the opinions of NSIs as to the possible scope of cooperation. The co-chair also presented the conditions and legal requirements for the SAIs' audit activities and informed about the Task Force's work.

2.5 The Task Force kept the Liaison Officers updated on its work. At their meeting in April 2012 in Rome, the Liaison Officers supported the action plan proposed by the Task Force.

¹ Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Germany, Greece, Hungary, Finland, France, Italy, Latvia, Lithuania, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden.

² Austria, Bulgaria, the Czech Republic, Denmark, Estonia, France, Malta, the Netherlands, Poland, Romania.

2.6 The meeting of the Task Force was held in June 2012 in Copenhagen with the participation of 16 SAIs and the European Court of Auditors. Representatives from Eurostat and Statistics Denmark (NSI of Denmark) were invited as guests. At the meeting:

- the participants were informed about the EU legislation on the cooperation between Eurostat and the NSIs; the European Commission initiatives regarding the role of the SAIs in assuring data quality; preliminary results of the ECA audit (“Did the Commission and Eurostat improve the process for producing reliable and credible European statistics?”) and the results of the Task Force questionnaire as regards the SAIs’ contacts with the NSIs and Eurostat;
- the SAIs’ representatives presented in detail their experience of cooperation with the NSIs in their countries and the experience from participation in the Eurostat’s Upstream Dialogue Visits;
- Eurostat presented a range of proposals concerning the future role of the SAIs in assuring the quality of data and the establishment of the „privileged partnership” between EU SAIs and Eurostat / NSIs which were discussed by the participants;
- Statistics Denmark presented the view from the Danish NSI on possible cooperation between EU SAIs and Eurostat / NSIs;
- the participants discussed and developed concrete suggestions for enhanced cooperation between EU SAIs and Eurostat / NSIs;
- a preliminary version of the draft Contact Committee resolution was discussed.

3. RELATIONS BETWEEN THE EU SAIS AND EUROSTAT / NATIONAL STATISTICAL INSTITUTIONS

3.1 The main actors involved in safeguarding the quality of government statistics are:

- the upstream data suppliers (i.e. ministries, Social Security Funds; other public or government controlled entities including those at state, regional and local level, etc.);
- the NSIs and the other key co-compilers of EDP statistics (i.e. MoF, central banks, etc.);
- the SAIs (through their audit of the public accounts);
- Eurostat;
- the European Court of Auditors.

3.2 Generally, the SAIs have until very recently had no relations with Eurostat³. This situation has however begun to change as a result of Eurostat’s invitation to the SAIs to participate in its Upstream Dialogue Visits in the Member States. Their main target are the entities supplying the upstream data. Therefore, at the beginning of each visit in a given country, the Eurostat’s delegates meet with the SAI to obtain information on the structure of the audit system in the Member State and the role of the SAI and the perceived risk areas as regards the upstream data, and then meet with selected institutions (also with the SAI’s participation as observers). Such visits are to be organised by the NSIs, but Eurostat decides on the agenda and chairs all meetings with upstream data providers. By June 2012, such visits had taken place in Austria, Belgium, Bulgaria, the Czech Republic, Greece (methodological visit see 4.2), Malta, Romania and Spain – the meetings were all attended by the representatives of the SAIs.

³ Only two SAIs (Austria and France) indicate that they have on occasion cooperated with Eurostat.

3.3 In many Member States there have been different kinds of contacts between the SAIs and the NSIs, although limited:

- almost all SAIs audit the NSIs, however with different audit scopes (see 3.4);
- almost all SAIs use statistical data developed by the NSIs (see 3.5);
- in some Member States, the NSIs use the audit reports of the SAIs (see 3.6);
- a few SAIs obtain additional data from the NSIs (see 3.7);
- a few SAIs cooperate with NSIs on methodological issues (see 3.8).

In practice, an important element that affects the scope of a possible cooperation between some SAIs and the NSIs is the SAIs' access (or its lack) to data on individual public entities available to the NSIs (see 3.9).

3.4 Audits of NSIs are performed by the SAIs with different audit scopes and with different frequencies, depending on the mandate and resources.

As a rule, the SAIs have a mandate to audit the accounts and financial management of their NSI (in Malta the law entrusts private sector auditors with this competence, though the SAI is still entitled to audit the NSI). Most of the SAIs perform such audit every year, some – every 2-3 years; 3 SAIs have not carried it out in the recent years.

Most of the SAIs (17 out of 24) also have a mandate to audit the professional activities of their NSI, however within the last 5 years only the SAIs of Austria, Estonia, Germany, Lithuania and Poland have conducted such audits⁴.

Example 1: The SAI of Austria carried out an audit on the determination of GDP. The main focus of the audit was the transparency, quality and reliability of data concerning consumer expenditure. The main findings showed that the data quality was basically high. However, the auditors identified certain shortcomings in the documentation of methods used for the reconciliation of data with the SNA⁵.

Example 2: In 2007, the SAI of Estonia carried out an audit on the "Relevance of official statistics and effectiveness of collection of data". From the point of view of relevance of statistics the main focus in the assessment was on whether national users of official statistics have sufficient possibilities to influence the production of statistics, and whether and how they are involved in planning statistical surveys and satisfied with the existing statistics. Upon assessment of the effectiveness of data collection, the activities of the Statistical Office in reducing duplicated data collection and reduction of the administrative burden of respondents was reviewed.

Example 3: In 2011, the SAI of Poland carried out an audit on the "Effects of implementing e-administration". The audit showed that the NSI implemented tasks from the Computerisation Plan for Poland 2007-2010, related to the use of electronic communication, including transferring statistical data and making it possible to browse statistical information. The NSI also provided the citizens with the possibility of electronic contact with itself.

Only one SAI – the Austrian Rechnungshof – has assessed the quality management system of its NSI in accordance with the European Statistics Code of Practice. The system has been audited in 2005 and 2010⁶.

3.5. Almost all SAIs (22 out of 24) use published statistical information from their NSI or Eurostat in their audit activities. Most SAIs use the information during their performance audits, some also use it in their audits of the national accounts, while a few others use it to

⁴ The SAI of Poland has competence to audit the activity of the NSI, except for the access to individual data gathered in statistical surveys (statistical confidentiality).

⁵ Komponenten des Bruttonationaleinkommens (Reihe Bund 2007/04).

⁶ Qualitätssicherungs- und Kontrollsysteme bezüglich der Daten der Volkswirtschaftlichen Gesamtrechnungen (Bund 2006/12); Grundlagen der Fiskalpolitik (Reihe Bund 2011/05).

assess key national indicators, the economic and demographic developments or the development in salaries, construction costs, welfare services or energy consumption.

Example 4: In its annual report on the situation and prospects of French public finances, the analysis of the SAI of France is mainly grounded on national accounts and government financial statistics.

3.6 Ten SAIs (out of 24) know that their NSI uses the SAI's reports in their work: some NSIs use the SAI's audit report to a small extent – they are only interested in information about the NSI itself, while other NSIs use the SAIs' audit reports in broader terms, searching for data on the national accounts or other subject matters.

3.7 Two SAIs (Austria, Spain) have communicated that they can obtain additional data from their NSI.

Example 5: The SAI of Spain uses statistical information from NSI, available on its website and the one developed at the request of the SAI, to carry out regularity and performance audits.

Other NSIs can conduct statistical surveys (for consideration) upon the SAIs' request, but the SAIs rarely use this opportunity.

3.8 Some SAIs cooperate with NSIs in methodological issues, but such situations are rare:

Example 6: In Bulgaria an interagency working group was established between NSI and BNAO. Furthermore, a Memorandum of Cooperation has been concluded between NSI, the Bulgarian National Bank and the Ministry of Finance in developing, producing and disseminating government finance statistics and national financial accounts. The idea behind is to develop a good understanding of the activities of the responsible institutions and to identify the areas of interaction.

Example 7: Starting from 2011, the SAI of Estonia has regular meetings with officials from Statistics Estonia in the planning phase of the audit of state consolidated accounts. State consolidated accounts include financial statements of all public sector institutions and the SAI is responsible for issuing an opinion whether they give a true and fair view of financial position and financial performance of the State. Statistics Estonia is using for government finance statistics the financial data from the same database that is being audited by NAOE. Statistics Estonia follows the financial audit reports issued by NAOE, especially the audit report issued on state consolidated accounts. For example, Statistics Estonia makes final corrections in government finance statistics reports after NAOE has completed its audit.
In 2012 meeting, the discussion concerned mainly the accounting principles of some non-routine transactions, the overall quality of the monthly financial reporting, the quality of financial reporting in municipalities, etc.

Example 8: The recent meetings between the Dutch SAI and the NSI were a reason to believe that some of NSI observations might be useful in the programming of the SAI regularity audit.

3.9 Regarding the access of SAIs to data on individual public entities available to the NSIs the information obtained from the Task Force members and the Liaison Officers shows that:

- 16 SAIs have such access (Austria, Bulgaria, Cyprus, Denmark, Estonia, France, Germany, Latvia, Malta, the Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden);
- 6 SAIs have no or limited access (the Czech Republic, Finland, Greece, Hungary, Italy, Poland)⁷.

⁷ For instance, in Poland, „the individual and personal data collected and gathered in the statistical surveys of official statistics shall be confidential and subject to particular protection; the data shall be used exclusively for statistical calculations, compilations and analyses and for the creation by the statistical services of official statistics sampling frames

4. EU LEGISLATION ON THE ROLE OF SAIs IN ASSURING THE QUALITY OF DATA AND FURTHER INITIATIVES OF EUROSTAT

4.1 In the context of the Excessive Deficit Procedure (EDP), the European Commission has been entrusted with the task of assessing the quality of data reported by Member States. The inaccuracies in the government statistics have revealed, however, that the existing system did not sufficiently mitigate the risk of providing Eurostat with substandard data, which is fundamentally important in ensuring the quality of the final published data. The Commission stated that there is a clear case for moving from a mainly corrective approach to a preventive approach to the quality management of the European statistics⁸.

The initiatives from the European Commission primarily concern either the NSIs or institutions which the NSIs cooperate with (such as the Ministry of Finance) or from which they receive upstream data. Apart from that, there are also initiatives which provide for the SAIs' potential participation:

- in the Eurostat Upstream Dialogue visits (see 4.2);
- in investigations concerning the manipulation of statistics (see 4.3);
- in independent auditing of the national system of public accounting (see 4.4);
- in carrying out an audit for the purposes of the excessive deficit procedure (see 4.5).

The European Parliament has also – in a resolution – expressed an opinion as regards the need to engage the SAIs in verifying the upstream data (see 4.6).

Further proposals, concerning mainly the possible larger role of the SAIs in assuring the upstream data quality, were submitted by Eurostat at the Task Force meeting in Copenhagen (see 4.7).

4.2 Article 11a of the *2010 revision of Regulation on the application of the Protocol on the excessive deficit procedure, etc.*⁹ grants Eurostat powers to operate a system of regular monitoring and verification of upstream data on public finance. Upstream Dialogue Visits are designed to identify risks or potential problems with respect to the EDP reporting system (see 3.2). Article 11b of the same Regulation grants Eurostat powers to call "methodological visits" which are more extensive and wide-ranging than upstream dialogue visits and are only used in exceptional circumstances. As of June 2012, Greece is the only Member State to have been the subject of a methodological visit.

4.3 Article 8 of the *Regulation on the effective enforcement of budgetary surveillance in the euro area* provides the possibility for the Council to impose a fine on a Member State that intentionally or by serious negligence misrepresents the deficit and debt data¹⁰. Before approaching the Council with the proposal to impose a fine, the Commission should conduct investigations to establish the existence of the misrepresentation. It may request the Member State to provide information, and may conduct on-site inspections, interview

for statistical surveys conducted by those services; provision or use of individual and personal data for other than specified above purposes shall be prohibited" (Article 10 of the Official Statistics Act of 1995).

⁸ Action plan has been presented in the Commission's Communication „Towards robust quality management for European Statistics"; COM(2011) 211 final, 15 April 2011.

⁹ 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 EC, OJ L 145, 10.6.2009, amended by Council Regulation (EU) No 679/2010 of 26 July 2010, OJ L 198, 30.7.2010.

¹⁰ Regulation (EU) No 1173/2011 of 16 November 2011 of the European Parliament and of the Council on the effective enforcement of budgetary surveillance in the euro area, OJ L 306, 23.11.2011.

any person directly or indirectly involved in compiling the deficit and debt data and accede to the accounts of all government entities. Details are defined in the Commission delegated decision, which provides that SAIs (of the euro area) may be invited to assist and participate within the Commission's investigations¹¹.

4.4 Article 3 (1) of the *Directive on requirements for budgetary frameworks of the Member States*¹² expects the independent audit of the national system of public accounting.

4.5 In November 2011, the Commission published the *draft Regulation on provisions for monitoring and assessing draft budgetary plans*, etc.¹³ In the part concerning the correction of excessive deficit, the draft contains rules providing a closer monitoring for Member States of the euro area. Article 7 (6) of the draft refers to the SAIs (of the euro area) which may be invited to participate in assessing the reliability, completeness and accuracy of the accounts for the purposes of the excessive deficit procedure.

4.6 In its *Resolution on quality management for European statistics*¹⁴, the European Parliament called on the Commission "to present proposals ensuring greater coherence in the competences of the national courts of auditors in verifying the quality of the sources used to establish the national debt and deficit figures" (paragraph 12).

4.7 At the Task Force meeting in Copenhagen in June 2012, Mr F. Lequiller, Director for Government Finance Statistics of the Eurostat, stated in his presentation "Towards a global partnership between the ESS and EU SAIs" that:

- it is more and more needed to have an efficient quality management system in the EU Member States that submits data on public debt and budget deficit;
- aside from periodic upstream dialogue visits, neither NSIs nor Eurostat can systematically assess the reliability of upstream data delivered by public entities, therefore it is important that the SAIs audit and certify data on debt in all the government entities;
- the SAIs should inform the NSIs about the unreliability of upstream data which can affect the debt and deficit level of a given Member State as soon as such information is found during the audit proceedings (early warning);
- the SAI's audits should be performed in a way that their results are available for the NSI before the timing of the excessive deficit procedure notification to be submitted to the European Commission by the Member State;
- the SAIs can help the NSIs to set up internal controls and quality management;
- the SAIs and NSIs should act as "privileged partners" (regular timely exchange of information) which would materialise in a formal MoU;
- the SAIs should act in favour of implementing future EU harmonised accruals-based public sector accounting standards to the public finance system in their Member States;

¹¹ Article 2 paragraph 2 of the Commission delegated decision of 29.6.2012 on investigations and fines related to the manipulation of statistics as referred to in Regulation (EU) No 1173/2011 of the European Parliament and of the Council on the effective enforcement of budgetary surveillance in the euro area; C(2012) 4361 final.

¹² Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, OJ L 306, 23.11.2011.

¹³ COM(2011) 821 final, 23.11.2011.

¹⁴ European Parliament resolution of 13 March 2012 on quality management for European statistics (2011/2289(INI)).

- what is not needed is that the SAIs develop their own interpretation of accounting standard ESA-95 (ESA 2010).

5. POTENTIAL AREAS OF COOPERATION BETWEEN THE SAIS AND EUROSTAT / NATIONAL STATISTICAL INSTITUTIONS

5.1 At the Task Force meeting in June 2012 the participants took stock of the current state of cooperation between EU SAIs and Eurostat / NSIs and discussed the implications for SAIs of the new EU legislation and the suggestions presented by Eurostat on the role of SAIs in relation to quality management of government statistics. On the basis hereof the Task Force has developed a list of concrete proposals for enhanced cooperation between EU SAIs and Eurostat / NSIs. The Task Force's proposals are presented in the draft Contact Committee resolution.

5.2 In the SAI answers to the Task Force questionnaire and at the Task Force meeting in June 2012 a wide range of potential areas of cooperation between the SAIs and NSIs have been mentioned. The following areas are included in this report in order to give a full picture of the issues that have been under consideration by the Task Force:

- A number of SAIs are interested in obtaining information from the NSIs that would enable them to improve their selection of audit topics and entities for auditing. E.g. information concerning risk areas or specific entities which are suspected to transfer unreliable statistical data.
- Some SAIs would like to submit proposals regarding the survey topics included in the NSI's multi- and annual programmes of statistical surveys.
- The SAIs and NSIs could discuss the presentation and timing of the publication of results of audits and statistical surveys. Some SAIs highlight that if the data from their NSI was available at an earlier point in time it would increase its usefulness to the audit.
- The SAIs and NSIs could provide one another with detailed information on the results of performed audits and statistical surveys. Some SAIs have mentioned that it could be helpful if the NSIs could make its data available in a format so that it could better correspond to the needs of a given audit (e.g. a more detailed aggregation of data). There is already such practice in a couple of Member States (see item 3.7). Some SAIs would like to discuss with the NSI their audit reports on public debt before they are published and to clarify and agree on the upstream data and the way of their production.
- The SAIs and NSIs could make the access to registers and databases available to one another.
- A number of SAIs also suggested that the SAIs and NSIs could cooperate to a wider degree in methodological issues. For instance, they could discuss the measurement of the results of economic and financial policies and the assessment of the national indicators. Furthermore, the NSI could advice the SAI on statistical issues, e.g. on the sampling of entities for auditing.
- The Task Force have also discussed the SAIs role in verification of upstream data flowing to the NSIs. The verification may be a part of the general audit process, i.e. the audit of the state budget implementation (or of the government accounts) or the IT audit. Hence, the audit of the accounts of national entities may include a verification of the data used by the NSIs. Some SAIs highlight that this may be of use to both

parties since it will facilitate to compare information from financial statements of audited entities with the data used by the NSIs. Additionally, the verification of information available to the NSIs will increase the reliability of data flowing to Eurostat. But it is worth noting that the audits performed so far cover only part of entities and / or transactions. No SAI has resources for annual detailed audit of all entities covered by its mandate. Most of the participants of the Task Force meeting in Copenhagen were of the opinion that the SAIs cannot – at least under current legislation – certify the upstream data, much less take responsibility for the data quality.

5.3 The work of the Task Force has shown that few EU SAIs have cooperated so far with the NSIs, although many SAIs agree that such cooperation is possible and a number of SAIs have established contact with the NSIs this year. There is no doubt that good communication between the SAIs and the NSIs is extremely important in order to improve and assure the quality of statistics. Most of the SAIs believe that they can play a certain role in the verification of the upstream data flowing to the NSIs and in the identification of risk areas and breaches in the quality management system of the public finance statistics; cooperation in other areas is also possible. Following the Eurostat's suggestion, the SAIs could consider making the NSI a privileged partner, meaning that the SAI and NSI, where beneficial for both, could i.e. exchange information on risk analysis, possible infringements, information on standards, methodology etc.

5.4 The Task Force also took note of the conditions of cooperation between the SAIs and NSIs:

- It has to be implemented on the basis of full independence of both SAIs and NSIs. In particular regarding the SAIs' planning of audits, it is the SAIs' independent decision whom, what and when they audit – except for some situations defined in legal acts;
- The cooperation has to take into account the national legislation e.g. the fact that most of the SAIs have no mandate to certify the accounts;
- The activity of public entities needs to be transparent, therefore data on their financial situation cannot be subject to the confidentiality. Lack of or limitation in the SAIs' access to data on individual public entities available to the NSIs prevents closer methodological cooperation and the transfer of data which would be useful to focus the SAIs' audits on entities or areas with the higher irregularity risk;
- The cooperation is only possible when both parties are interested in developing it.