



EUROPEAN COMMISSION
EUROSTAT



Directorate A: Cooperation in the European Statistical System; Resources
Unit A3: Strategic Planning; Learning and development

EUROSTAT

ANNUAL ACTIVITY REPORT 2010

Eurostat's mission is to provide the European Union with a high quality statistical information service. Our core work is the production of statistics, improving the quality of our products and relations with our partners i.e., the European Statistical System.

Part 1: Policy achievements in 2010

In 2010 the European Statistical System (ESS) faced many challenges due to scarce resources and the simultaneous emergence of new statistical demands.

For Eurostat, 2010 was marked by the necessity to improve the quality of public finance statistics following the situation of Greece. This was an important factor in the discussions with Member States, as was the development of a common understanding of the vision for the future of European Statistics set out in Communication 404¹ and of its subsequent implementation.

Furthermore, the *Commission strategy Europe 2020 for smart, sustainable and inclusive growth*², establishes a number of headline targets and other indicators such as employment rates, R&D investment levels, climate-energy targets, early school leavers, risk-of-poverty rates where Eurostat will be called upon to deliver the necessary underlying statistics. The initial work on these indicators was already launched in 2010 but will also constitute an important priority for the coming years.

In addition, in 2010, Eurostat reinforced its role as coordinator of European statistics to ensure the integration of the ESS in the global statistical system and to assist the development of national statistical systems through greater international cooperation and technical assistance.

Finally, significant efforts were needed to meet the principal objectives set for 2010 in the Management Plan. These achievements could not have been made without the strong commitment of all Eurostat staff. The strengthening of their technical skills and motivation have been essential elements.

Economic and financial crisis – public finance statistics under the spotlight

Last year, the "Greek" crisis had a huge impact on the Eurostat **verification program of debt and deficit statistics**, and furthermore, in the whole work programme of the DG. In particular, Eurostat stepped up its verification function regarding the debt and deficit notified to the Commission. The powers of Eurostat in the verification process of Excessive Deficit Procedure (EDP) statistics were extended with the adoption of the Regulation 679/2010³ and Eurostat was reorganised in order to reinforce the EDP function.

¹ Communication (2009) 404 final on the production method of EU statistics: a vision for the next decade

² Communication "Europe 2020 - A strategy for smart, sustainable and inclusive growth", COM (2010)2020 final of 3.3.2010

³ Council Regulation (EU) No 679/2010 amending Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the excessive deficit procedure, JO L198 , 30/07/2010

Concrete actions undertaken by Eurostat included the intensification of the visits conducted in situ, with a significant focus on Greece, the publication of the report on "Greek deficit and debt statistics" used to launch the infringement procedure and "reservation" on Greek data, reservation lifted at the end of the year, after a series of methodological visits and substantial revision of the data. The Joint Overall Statistical Greek Action Plan (JOSGAP) was set up and strictly monitored during the year. Other countries were also visited and their data monitored with constant attention, in particular during the two notification processes.

The verification of **own resource statistics** (gross national income and value-added tax data) was pursued successfully. The European Court of Auditors gave an explicit positive assessment on the conduct of this program.

A more efficient production system - Vision

Following the adoption in 2009 of the Communication 404 on the new production methods of EU statistics (the "Vision"), several concrete actions and steps were taken in 2010 to ensure the necessary tools, infrastructure and resources to implement the Vision:

- An agreement on a joint strategy between Eurostat and Member States, providing the basis for the elaboration of a realistic and concrete roadmap for action in the years to come;
- The setting-up of several Vision Infrastructure Projects (VIP), focused on efficiency gains in order to achieve an integrated statistical business process in the ESS;
- The consolidation of a strategic management system and the introduction of an integrated approach to policy development, programming and resource allocation in order to allow the organisation to adapt to a process of continual change;
- The setting up a Coordination Group at high-level to coordinate the implementation of the Vision;
- The launching of the "new dissemination chain" based on a new common reference database (Eurobase) used by all statistical domains at Eurostat, improving efficiency and facilitating the integration of statistics across different domains.
- The creation of a "Laboratory" within Eurostat for developments in cross-cutting statistical domains.
- The drafting of a strategy to modernise social statistics, which will provide the basis for a roadmap of priority actions for the period 2012-2017.

The European Statistical System (ESS) - looking for excellence inside and outside

The ESS is the **partnership** between Eurostat, and the national statistical institutes and other authorities responsible in each Member State for the development, production and dissemination of comparable statistics. This partnership also includes the EEA countries. Member States collect data and compile statistics for national and EU purposes. The ESS

functions as a network in which Eurostat's role is to lead the way in the harmonisation of statistics in close cooperation with the national statistical authorities.

In 2010, progress was made in supporting the **capacity of the ESS** to deliver relevant high-quality statistics by consolidating and improving the work of the governing bodies of the ESS; by the development of a more effective system for prioritisation, deepening the reflections on a legislative strategy; securing a high execution of the budget and developing simpler procedures for the disbursement of funds.

The ESS also coordinates its work with candidate countries, Switzerland and at European level with other Commission services, agencies and the ECB and international organisations such as OECD, the UN, etc. The profile of **the ESS on the global stage** has been raised by contributing in major international projects such as the UN Summit on Millennium Development Goals, strengthening links with larger emerging economies through the signature of Memoranda of Understanding. It is also involved in capacity building projects such as the global strategy for the development of agricultural statistics and efforts to promote Civil Registration in Africa.

Production and development of statistics to satisfy customers' needs

Supporting the implementation of the priorities of the Commission for 2010⁴, and, in particular, the Commission strategy **Europe 2020**, represents one of the main challenges for Eurostat. Europe 2020 establishes a number of headline targets and Eurostat is requested to provide the necessary underlying statistics. In close cooperation with other Commission services, the set of headline indicators for the strategy was defined.

In addition a first update of the set of **Sustainable Development** indicators has been agreed and implemented in order to take into account the headline targets. Eurostat actively participated in the work on the design of scoreboard of macroeconomic indicators for the macroeconomic surveillance within the European semester. Eurostat in cooperation with the UNSD continued the work on early warning and **business cycle** indicators as a response of the international statistical community to the economic and financial crisis."

Social statistics data in support of a number of the Europe 2020 headlines targets and flagship initiatives were made available in 2010, including employment, social exclusion, education, R&D, innovation and information society. In particular a new indicator related to the population at risk of poverty or social exclusion was adopted by the Council with a substantial contribution by Eurostat.

Significant work has been performed to develop multi-dimensional indicators for **quality of life** measurement in the context of the Quality of Life agenda, which seeks to build indicators on societal progress based on social aspects such as income distribution, social inclusion, social protection, living conditions and health status.

Important developments have been reached concerning the **sustainable growth initiative**: the streamlining of environmental indicators, the development of methods to properly capture the share of renewable energy and to produce fast estimates of CO₂

⁴ "Commission Work Programme 2010, time to act", COM (2010) 135 final of 31.3.2010

emissions, and the launching of new projects on air emission measurement from air, road and maritime transport.

Following the **GDP and Beyond**⁵ and the Stiglitz-Sen-Fitoussi⁶ reports, a task force was set up on enhancing the household perspective in national accounts. A report will be delivered at the beginning of 2011.

The efforts to produce European supply-and-use and input-output tables were continued, as was the implementation of productivity indicators for **EU-KLEMS**. Quarterly **Balance of Payments** data were streamlined to avoid duplications and maximise synergies between Eurostat and ECB.

The Commission adopted the new version of the European System of Accounts (**ESA 2010**)⁷. This is a major step for this framework regulation of more than 800 pages. Work is progressing as planned and it is foreseen that the new ESA will be fully implemented by 2014. Furthermore three regulations were adopted as regards education and lifelong learning statistics, and progress was made to modernise the legislative framework for social, business and trade statistics.

Eurostat launched most actions included in the **MEETS program** for the modernisation of European enterprise and trade statistics, in line with the "vision". The progress report presented to the European Parliament and to the Council was adopted by the end of 2010.

Concerning spatial and regional statistics, an operational version of the **INSPIRE** Commission portal has been developed and it planned to be fully deployed in March 2011.

Several **cross-cutting projects** were launched in order to increase the efficiency of statistical processes in the areas of agriculture and environment. They are well advanced for fishery, and the extension of the projects to other **agricultural domains** has been agreed. Important achievements were also reached as regards the Farm Structure Survey, Land Use Survey and agro environmental indicators, with new data available.

Finally, Eurostat continued to support new Member States as well as candidate and potential candidate countries to strengthen their statistical system and build sustainable capacities to produce good quality statistical data. Activities on advocacy for statistics and donor co-ordination for projects outside Europe and its neighbourhood were also high on the agenda.

Dissemination – high quality of service for all users of statistical information

In order to attain its objectives regarding dissemination Eurostat based its strategy on the guiding principles of free access and free re-use of European Statistics, impartial treatment of all users, dissemination via the web site, and availability information on how data were collected and how the should be used correctly.

In 2010 the number of visits by users to the **Eurostat website** increased by around 50% compared to 2009r, reaching around three million visits per month. The content and use of the Statistics Explained section grew and evolved towards a general-purpose

⁵ Communication of the Commission "GDP and beyond - Measuring progress in a changing world", COM(2009) 433 final of 20.8.2009

⁶ Report on the Measurement of Economic Performance and Social Progress, J.E. Stiglitz, A.Sen, J. -P. Fitoussi, 2009

⁷ COM(2010)774 final

"publications hub", new and improved sections were available in 2010 including the sections for "Europe 2020" and "GDP and Beyond". As an example of re-use of data, Google makes available Eurostat data through their public data service and search function.

In 2010, Eurostat issued a record number of **News Releases** (201 compared with 187 in 2009). From a media perspective, the year was marked by the impact of the Greek crisis, leading to a growing interest among journalists and the public in EU public finance statistics and the role of Eurostat itself. In fact, the total number of requests addressed to the media and institutional support increased by 30% in 2010.

Finally, more than 100 **publications** were released, including the flagship Eurostat Yearbook, the Regional Yearbook, the Statistics in Focus series. Other major publications included "Income and living conditions in Europe" and "Environmental statistics and accounts" as well as the pocketbooks on the candidate and potential candidate countries and on the Mediterranean countries.

Quality, methodology and information systems

Progress continued in the implementation of Eurostat's **Quality Assurance Framework** in 2010. A total of 32 statistical processes were assessed to identify strengths, weaknesses and the resulting improvement actions. The mid-term evaluation of the five-year Statistical Programme 2008-2012 was conducted and the report adopted in June 2010. At ESS level, the Sponsorship on Quality focused its work on quality frameworks and the communication of quality to users.

Colloquia and conferences on key issues related to the production and analysis of statistics were organised. It is worth mentioning the 6th Eurostat Colloquium on "Modern Tools for Business Cycle Analysis: the lessons from global economic crisis", activity reacting to the crisis and of close contact with the users, analysts and the academic community.

A significant part of the methodological activities targeted the **standardisation** of ESS production process aiming at efficiency and quality gains, in particular the Euro SDMX, to harmonise, release and implement methodological information. The implementation of the SDMX progressed within a series of domains such as aviation and fishery statistics.

The ESS governance structure for **statistical confidentiality** was consolidated and the access to confidential data for scientific purposes was widened and improved. Research activities were further developed in collaboration with DG Research and other stakeholders.

Based on the **Data Life Cycle** (CVD), Eurostat aims to further align and integrate its statistical IT applications and IT structure by using a coherent set of concepts and IT tools. In 2010 the usage of CVD components was extended in the areas of social, agriculture, fisheries, environment and energy statistics. Currently 25% of databases are compliant with CVD. The medium term goal is that CVD is applied in all statistical domains.

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Part 2: Management and internal control systems

2.1. Introduction to Eurostat

Overview

Eurostat is responsible for ensuring the production of European statistics for EU policy purposes. To this effect, the statistical production covers the whole range of EU policies and supports the functioning of key activities such as the Excessive Deficit Procedure (EDP), the calculation of own resources, energy and climate change, etc.

Eurostat carries out these tasks in cooperation with the statistical authorities in the Member States and other national authorities, thus forming the European Statistical System (ESS). The ESS refers to the functional partnership comprising Eurostat, National Statistical Institutes (NSIs) and other national bodies responsible for developing, producing and disseminating European statistics in each Member State.

Regulation (EC) No 223/2009 on European statistics⁸ establishes the legal framework for the production of European statistics, inter alia by defining the ESS and by establishing the ESS Committee as the coordination committee at EU level.

The ESS functions as a network in which one of Eurostat's roles is to lead the way in the harmonisation of statistics in close cooperation with the national statistical authorities. The environment of Eurostat is thus characterised by the close cooperation with the NSIs for the production of European statistics. The ESS also coordinates its work with international organisations such as the OECD, the UN, the IMF and the World Bank.

The production of European statistics by Eurostat is based on data supplied by Member States. Confidential statistical data transmitted to Eurostat are covered by the confidentiality requirements established by the above-mentioned Regulation on European statistics. To ensure respect of the confidentiality requirements, Eurostat and the national authorities coordinate and cooperate closely, and logical and physical protection arrangements are put in place.

The Community Statistical Programme (2008-2012)⁹ defines the approaches, the main fields and the objectives of statistical actions envisaged for the duration of the programme. It also establishes their financial envelope. It provides that "the Commission can support the development of statistics and the build-up of capacity in the ESS by awarding service contracts or concluding grant agreements". In addition, Regulation (EC) No 223/2009 gives the Commission the possibility to decide on temporary direct statistical actions and to award grants to NSIs and other national statistical authorities without a call for proposals. The Community Statistical Programme and Regulation (EC) No 223/2009 may be considered in all cases as the basic act for own credits.

⁸ Regulation (EC) No 223/2009 on European statistics, JO L 87 of 31.3.2009

⁹ Decision 1578/2007/EC of the European Parliament and the Council, OJ L 344 of 28.12.2007

Furthermore, the Programme for the Modernisation of European Enterprise and Trade Statistics (MEETS 2009-2013)¹⁰ adopted in April 2009 also provides a legal framework for the financing of statistical work defined in the scope of the MEETS Programme, constituting a separate financing decision.

From a financial perspective, Eurostat awards contracts mainly to firms specialised in statistics or informatics services and grants mainly to NSIs and to entities designated by each Member State to produce official statistics.

In 2010, Eurostat pursued its strategy to streamline and simplify the grant-management processes. In particular, the Commission adopted a Decision on 30 November authorising the use of a standard scale of unit costs for grants awarded to seven National Statistical Institutes and increasing the flat-rate financing for indirect costs for the producers of official statistics¹¹.

The organisation of its internal Financial Circuits has been modified, as Eurostat centralised the financial aspects of the payment process as of 01.07.2010. (See section 3.1.1)

Budgetary commitments in 2010, concerning both own and sub-delegated credits amounted to 79 million (compared to 80 million euro in 2009). These commitments were financed 73 % by Eurostat own credits and 27 % by sub-delegated credits (67% and 33% respectively in 2009).

Working arrangements between the Cabinet of Commissioner Rehn and Eurostat

In line with the Principles governing working relations between the Members of the Commission, their Cabinets and the Services of the Commission detailed working arrangements have been established between the Cabinet and the Directorate General on 11 May 2010. These are regularly reviewed and made available to all staff via Eurostat's intranet, and also externally via Eurostat's website. They lay down general principles guiding the relations between the Commissioner's Cabinet and Eurostat, as well as more detailed rules linked to administrative and information procedures.

With regard to the development, production and dissemination of statistics, these arrangements reaffirm, in line with the professional independence principle, the sole responsibility of the Director-General of Eurostat for deciding on statistical methods, standards and procedures, and on the content and timing of statistical releases.

With regard to the management of financial resources they stipulate inter alia that the Commissioner shall be regularly and properly informed of any proposal to make changes in the financial circuits and control systems as well as all audit work (and related risk assessment) undertaken by the various control bodies (and, in particular, the Internal Audit Capability (IAC), the Internal Audit Service (IAS), the European Court of Auditors, the Directorate-General by way of ex-post controls and OLAF). In 2010, management meetings with the Cabinet were held on all relevant matters falling under the responsibility of the Commissioner.

¹⁰ Decision No 1297/2008/EC of the European Parliament and of the Council , OJ L 340 of 19.12.2008

¹¹ Application of a flat rate of 30 % of the total eligible direct staff costs for grants awarded by Eurostat to bodies identified in Article 5 of Regulation (EC) N°223/2009 of the European Parliament and of the Council.

2.2. The functioning of the entire internal control system

2.2.1. Compliance with the requirements of the control standards

With a view to better integrate internal control activities and to reinforce the role of senior and middle management in this process, the scope of the Annual Risk Management Exercise was extended in 2009 to cover as well the prioritisation of Internal Control Standards (ICS), updating of the list of critical processes and projects, and the state of play of improvement actions following audit recommendations and possible ICS weaknesses (when appropriate).

In 2010, it was decided to cover all aspects of planning, programming and strategy in one seminar for senior management which would take place in October each year. Therefore, all issues related to risk management and internal control activities were discussed by senior management in October 2010 together with priorities, resource allocation and other strategic issues. Critical risks and ICS prioritised to be included in the Management Plan 2011 were agreed as well as a list of critical projects and processes. In addition, at the beginning of 2011 Eurostat carried out a comprehensive self-assessment on the compliance and effective implementation of the 16 revised ICS introduced as from 1st January 2008¹².

Overall, both exercises confirmed compliance with the requirements of the 16 standards and a satisfactory level of effectiveness of control, taking full account of risk management principles.

Weaknesses in the ICS 4, 11 and 12 were reported in the AAR 2009, as well as improvement actions performed in 2009. Progress in the implementation of remaining actions from the action plan drafted is reported below. Needs for improvements have been identified for ICS 14 and corrective actions were implemented in 2010 as further explained below.

- **ICS 4 - Staff Evaluation and Development:**

Human Resource Policy is one of the top priorities in Eurostat, e.g. ICS No 3 on staff allocation and mobility was prioritised in the Management Plan 2010 and ICS No 4 was prioritised up to 2009. A global analysis of the existing resources and future shortcomings in the core business profiles in order to evaluate the HR needs in the future and detect gaps between required and available skills and competences was conducted in 2010. The report was presented to the senior management in its strategic seminar in October 2010. The next step is to carry out a detailed analysis of the different profiles in Eurostat to prepare career development plans. This project has been included in the global HR strategy and further progress will be therefore treated in the context of ICS 3 compliance and effective implementation. (See also ICS 3 in section 2.2.2)

- **ICS 7 – Derogations to the mandatory staff mobility in relation to sensitive functions**

With the implementation of the Mobility Management Plan, staff with sensitive functions approaching five years on the post, are identified and their mobility planned. An

¹² Self-assessment was based on the information provided in Communication SEC (2007)1341 and guidelines provided in the Standing Instructions for the Annual Activity Reports related to the control standards.

inventory of all sensitive functions is available and monitored regularly. Sensitive functions beyond authorising officers by sub-delegation (AOSD) and Appointing Authority (AIPN) have been identified.

In 2010, the pending mobility for Heads of Unit was solved by a retirement, mobility to another DG and internal mobility. In addition, a former Head of Unit was nominated Director. A further mobility round is planned for mid 2011 swapping the responsibilities of two Head of Units. One Head of Unit is subject to derogation due to closeness to retirement in the forthcoming two years. This situation will be reviewed before the end of 2011.

- **ICS 11 – Document Management: document management rules**

The introduction of ARES, the new system for documentation in the Commission, has been an important challenge for the Document Management capacity. The situation in Eurostat has improved in 2010, and the percentage of documents registered and filed in ARES was 94%, but it is considered that there is still scope for improvement¹³ and efforts will be pursued in 2011. During the first half of the year, actions will be mainly related to the implementation of ARES in Eurostat, which provides an opportunity to increase the awareness of the importance of Document Management and simplification and modernisation of procedures through the introduction of e-signatories. The regular ex-ante and ex-post control function will be reinforced with the aim of providing staff with enhanced and more focused support, and thus improve Document Management in Eurostat.

- **ICS 12 – Information and Communication**

To ensure an effective implementation of the new production method of EU statistics (which is a critical project for Eurostat), a communication plan has been designed to ensure staff are appropriately informed and involved.

In 2010 several communication activities were carried out, i.e. two Staff meetings on the state of play of the implementation of vision 404 (in March and in June), four Open Space sessions where staff could discuss and give its opinion on key topics related to the new production system, various articles in the internal newsletter, a dedicated page on the Intranet, wikis etc. as well as presentations by guest speakers.

Information and communication actions will be carried out regularly in coming years to keep awareness and commitment from staff. It is considered, therefore, that no further measures are needed and that Eurostat is fully compliant with this standard.

- **ICS 14 – Evaluation of activities: ex-ante evaluations and planning processes**

Evaluation techniques at project level need to be strengthened to improve efficiency and effectiveness of expending activities. Several actions have been already undertaken during 2010, e.g. ex-ante evaluation for expenditure programmes and ex-ante evaluations are prepared systematically for each project above 100 000 € funding, a process description of the Community Statistical Programme ex-post evaluations has been prepared to ensure the monitoring of the use of evaluation results, ... (See also section 3.1.3.). Further actions will take place in 2011 according to the Action Plan drafted, i.e.

¹³ See Note from SG, Ares(2009)395063

the revision of Eurostat's project management methodology to take into account the changing regulatory and operational environment.

2.2.2. Effectiveness of implementation of the prioritised control standards

In the Management Plan 2010, Eurostat identified ICS 1 "Mission and values", ICS 3 "Staff allocation and Mobility" and ICS 5 "Objectives and Performance indicators" to be prioritised for 2010. The decision of the Directors' Meeting in this respect was based on the Internal Control Standards Assessment carried out at the beginning of 2010 as well as in the DG's annual risk management exercise of November 2009.

To ensure an effective implementation of the new production method of EU statistics, existing structures and mechanisms need to be reviewed, including a reflection on the mission statements, staff allocation and introduction of a new management system.

- **ICS 1 – Mission and values**

With the adoption of the Communication 404 it was decided to review and update as needed the mission statements for the DG, Directorates and units. Eurostat has decided to base the revision on a broad reflection on its role in the changing political and societal environment and to take into account recommendations of various stakeholders, especially Conclusions of the ECOFIN Council of November 2010. This reflection goes hand in hand with the drafting of the Communication from the Commission to the EP and the Council "Towards robust quality management for European Statistics".

After the first round of internal discussions, a draft will be prepared and discussed in March 2011. Some stakeholders will be informally consulted to assure clarity of the mission statement. The target is the adoption of the revised mission statement in April.

- **ICS 3 – Staff allocation and mobility**

During 2010, actions continued to improve the alignment of organisational structures and staff allocations with priorities and workload. At the end of 2009, Eurostat's senior management approved a new strategy for the allocation and redeployment of posts (FRAME) in the context of the Vision for re-engineering statistical production (Communication 404) and of zero growth in HR for the period 2009-2013.

The need for reinforcing certain priority areas identified was the basis for the allocation of resources. The FRAME project was fully implemented in 2010 together with the first HR plan for Eurostat, describing how to match Eurostat's objectives with the resources available. Other issues such as staff skills needed, staff redeployment and reconversion where needed, attracting young talent and the flexible allocation of human resources to high workload areas were also covered, improving the provision of a high quality HR service.

Furthermore a half-day seminar on the integration of administrative approaches was organised in June and a senior management workshop to adopt relevant decisions related to planning and resource allocation took place in October 2010. Directors concluded that it was necessary to continue and intensify the efforts of redeployment of human resources in 2011, in particular in order to be able to resource properly and substantially the critical area of public finance statistics and deepen the measures related to the implementation of vision projects and the development laboratory. The process to realise this by gradual implementation was agreed. In addition, senior management drew the first conclusions as to the main principles for a forward-looking HR policy on issues such as the future staff composition and rewarding flexibility and versatility.

• ICS 5 – Objectives and Performance indicators

The introduction of a global management system based on the Balanced Scorecard approach was approved by senior management in September 2009 and the new management system (MOVE – Management of the Vision in Eurostat) was implemented during 2010. The system produces objectives for the next 18 months that help to implement the vision. Indicators will monitor progress towards these objectives. These objectives have to be integrated in the normal planning and programming work of Eurostat, i.e. the Annual Work Programme and the Community Statistical Programme.

The reflection on an integrated management tool aimed at better aligning resources with priorities was completed during 2010 with the introduction of the strategic seminar for senior management in October each year.

The management system will be supported with the creation of a modular IT system (Galaxy) that will bring together planning and resource allocation. The system will, among other things, support management in resource allocation processes and priority-setting.

Within the Galaxy framework, the planning module (PLANe) is now under development. Sub-modules for updating processes and projects and for preparing the MP 2011 were tested over summer and successfully implemented in autumn 2010. The AAR 2010 sub-module was implemented in January 2011 and the AWP 2012 sub-module is planned to be rolled out in February 2011.

The FIDES module concerning the Financial Decision is currently under development in the framework of Galaxy, and work to develop the HR module should start soon. Further modules, i.e. risk management, evaluation, legal basis... may be developed as well.

2.2.3. Conclusion

Taking into account the above information, it can be concluded that the internal control system of Eurostat is functioning well. Internal control standards are being complied with and effectively implemented in the Directorate General to an acceptable level. Where weaknesses have been identified, action plans are in place to redress the situation and progress is considered satisfactory. Moreover, efforts will be continued to ensure an even more effective implementation. Particular areas have been identified and will be addressed on priority. In particular, ICS No 1 (mission and values) remains a priority in the 2011 MP. The ICSs No 8 (Processes and Procedures) and No 14 (Evaluation of activities) have also been prioritised.

The conclusion takes account of the following elements:

- the opinion of the IAC;
- the analysis of registered exceptions in 2010;
- the reporting by AOSD in support of the Director-General's declaration, in particular their appraisal of the internal control system;
- the self-assessment of the ICSs;
- the bi-annual progress reports on the follow-up of audit recommendations.

2.3. Information to the Commissioner

The main elements of this report and assurance declaration have been brought to the attention of Commissioner Rehn.

Part 3: Building blocks towards the declaration of assurance (and possible reservations to it)

3.1. Building blocks towards reasonable assurance

Reasonable assurance is the personal judgement of the Authorising Officer by Delegation (AOD) based on all information at his/her disposal. This information can be structured around four pillars or "building blocks": the assessment by the management of the DG/service, the results from independent audits during the reporting year, the follow-up of action plans which address weaknesses identified in previous years and the assurance reported to the AODs for the implementation of budget lines by other AODs in the case of crossed sub-delegation.

In order to identify material weaknesses that need to be disclosed on the declaration of the AOD, Eurostat has taken into account a series of qualitative and quantitative criteria, assessing whether the weakness is significant and should lead to the reporting of a reservation. The materiality level used is 2%. These criteria are detailed described in annex 4.

3.1.1. Building block 1. Assessment by management

Re-organisation of financial circuits:

Based on an assessment of the suitability of the financial circuits in use, on 8 December 2009 Eurostat's management approved the re-organisation of the financial circuits of the DG. Following this decision, as of 1 July 2010 the financial initiation for payments was moved to the Financial Management Unit and financial initiation for commitments was moved to financial cells at Directorate level. Overall, in terms of financial circuits, Eurostat now applies a more centralised model for payments (centralisation of financial initiation and verification) and a partially decentralised model for the commitments. This organisation aims at economies of scale, allowing to re-affect posts from administrative support to priority operational activities; to streamline and strengthen Eurostat's payment process in line with the objectives of the Communication on streamlining financial rules and accelerating budget implementation to help economic recovery¹⁴, and to improve the DG's financial management overall. An assessment of results achieved is planned in 2011.

In accordance with the Guidelines on Financial Circuits issued by DG BUDG in June 2010 and based on a risk analysis, Eurostat started a pilot project in November 2010, to simplify the financial circuit for de-commitments. As of November 2010, de-commitments are initiated, verified and authorised in the Financial Management Unit, involving one financial agent initiating the transaction and another financial agent verifying and authorising it.

¹⁴ SEC(2009) 477 final, Communication to the Commission on Streamlining financial rules and accelerating Budget implementation to help economic recovery.

Control strategy

In 2009, Eurostat decided to better balance ex ante and ex post controls. In 2010, reinforced ex ante controls have been implemented, to detect before payments risks of errors and irregularities. These controls are mandatory. As far as ex post controls are concerned, there were no new controls launched in 2010, the focus has been put on a review of the ex post process and methodology. To that end, some controls have been re-performed and finalised, with no errors and irregularities detected.

The 2005-2009 multi annual ex post control programme has been extended in 2010 to allow for an appropriate coverage of Eurostat main beneficiaries.

KEY INDICATORS SUPPORTING REASONABLE ASSURANCE FOR DIRECT CENTRALISED MANAGEMENT – GRANTS 2010

<i>Input: resources devoted to ensure legality and regularity of underlying transactions</i>			
		2010	
	Number of DG's internal staff dealing with ex-ante verification ¹⁵	5	
	Number of DG's internal staff dealing with ex-post controls	2	
	Number of DG's internal staff in Internal Audit Capability	1	
	Financial resources used to fund external audit activities	n/a	
	Number of financial transactions ¹⁶	Commitments ¹⁷ 234	Payments: 485 Recovery Orders linked to ex-post control:
	Amount of financial transactions	Commitments 27 230 393 €	Payments 19 318 566 € 78,878,5
	Average	116 369 €	39 832 € 39.439.25
<i>Output: controls during project implementation</i>			
		2010	
	Number of rejected financial reports from beneficiaries compared to total numbers of financial reports processed	N.A.	
	Number of financial transactions being subject to a non favourable opinion during ex-ante financial verification	2	
	Number of financial transactions being subject to a 2nd level ex-ante verification	N.A.	

¹⁵ Financial unit only

¹⁶ Figures refer to Eurostat credits 2010

¹⁷ Only level 2 commitments on Eurostat credits 2010

	Number of registered exception procedures in year n	10
	Number of instances of overriding controls in year n	1
<i>Output: controls carried out during the ex-post phase of projects</i>		
	Amount of financial transactions concerned by ex-post control (population)	No new controls in 2010, results of ex-post controls 2009 under analysis
	Amount of financial transactions actually controlled ex-post (sample)	N.A. (No new controls launched in 2010)
<i>Results of controls</i>		
	Amount of net financial corrections identified by ex-post controls/compared with amount of financial transactions actually controlled ex-post	N.A. No ex-post controls launched in 2010.
	Amount of recovery orders issued in 2010 linked to ex-post controls conducted 2005-2010	€ 78,878,50
	Amount actually recovered in 2010 compared with recovery orders issued for the same cases	€ 78,878,50

KEY INDICATORS SUPPORTING REASONABLE ASSURANCE FOR DIRECT CENTRALISED MANAGEMENT – PROCUREMENT 2010

<i>Input: resources devoted to ensure legality and regularity of underlying transactions:</i>		
		2010
	Number of DG's internal staff dealing with ex-ante verification ³	3
	Number of DG's internal staff dealing with ex-post controls	no ex-post controls on procurements 2010
	Number of DG's internal staff in Internal Audit Capability	2
	Financial resources used to fund external audit activities	0
	Number of financial transactions	Commitments: 315
		Payments: 637
	Amount of financial transactions	Commitments: 29 614 317 €
		Payments: ⁸ 26 778 449 €
<i>Output: controls during project implementation</i>		
		2010
	Number of rejected financial reports from beneficiaries compared to total numbers of financial reports processed	0
	Number of financial transactions being subject to a non favourable opinion during ex-ante financial verification	0

Number of financial transactions being subject to a 2nd level ex-ante verification	N.A.
Number of registered exception procedures in year n	4
Number of instances of overriding controls in year n	0

BUDGETARY EXECUTION IN 2010

Budgetary execution in 2010 concerns the implementation of the two programmes managed by DG ESTAT: the Community Statistical Programme 2008 – 2012 and the MEETS programme 2009-2013, as well as the closure of the Community Statistical Programme 2003 -2007 (payments only).

As a service DG, Eurostat uses own budget appropriations as well as budget appropriations sub-delegated to it by client DGs, in order to provide the European Union with a high-quality statistical information service.

Budgetary commitments in 2010, concerning both own and sub-delegated appropriations amounted to 79.32 million euro (compared to 80.44 million euro in 2009). These commitments were financed 73% by Eurostat own credits and 27% by sub-delegated credits (67% and 33% respectively in 2009).

40% of those commitments concern the awards of contracts, mainly to firms specialised in statistics or informatics services. 60% concerns grants, mainly to National Statistical Institutes and to other national authorities responsible in each Member State for the development, production and dissemination of European Statistics as foreseen by Regulation 223/2009 on European Statistics.

The amount committed for procurements slightly decreased compared to last year (-10 %). The amount committed for grants increased by 14 % compared to 2009, due to the heavy use of the grant instruments for sub-delegated funds. The picture for own appropriations committed by Eurostat is different, with the use of procurements procedures amounting to 52 % (55 % in 2009).

Commitment appropriations

Details of budgetary implementation, which together reached 87.3%, were as follows for own and sub-delegated commitment appropriations (representing a global amount committed of 79.32 million euro):

Budgetary implementation for own commitment appropriations reached 90.8% (54 million euro) of the budget available. More specifically, the annual budgetary implementation for the Community Statistical Programme 2008-2012 reached 96.14%, whereas implementation of the MEETS programme 2009-2013 allowed committing 66.55% of the appropriations available for this activity. Budgetary implementation for sub-delegated commitment appropriations reached 99.3% (21.11 million euro).

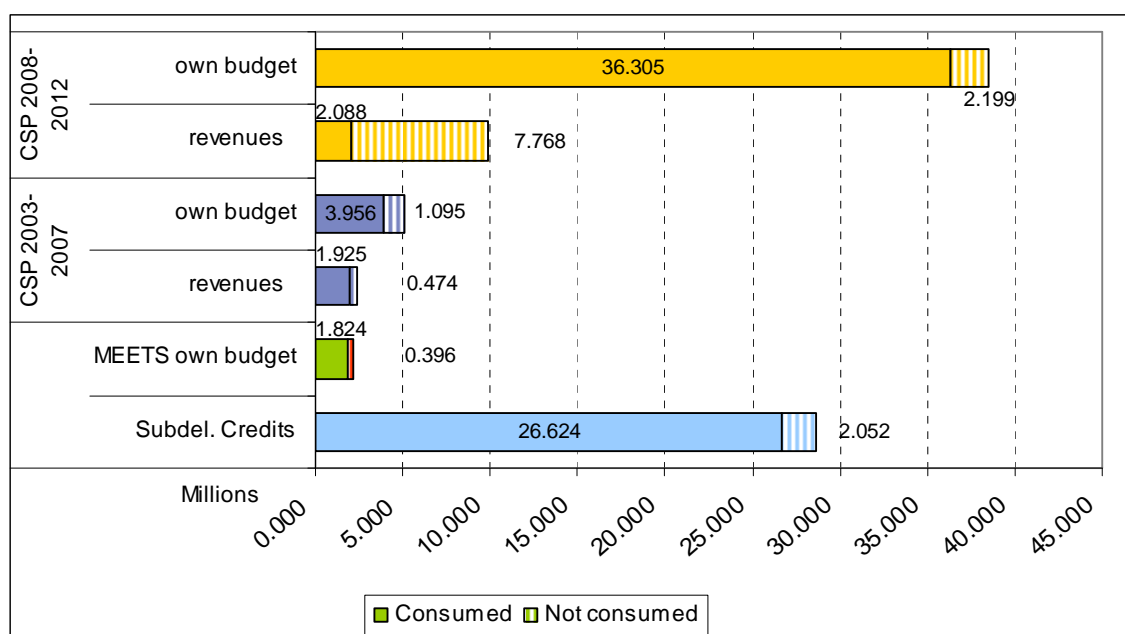
Furthermore, a 31.43 % budget implementation on revenues was achieved for the Suisse contribution to the Community Statistical Programme.

Payment appropriations

Payments in 2010 (Eurostat Statistical Programmes, MEETS and sub-delegated appropriations) amounted to 72.72 million euro, a higher amount than in 2009 (70.3 million euro). Execution of payment appropriations for 2010 was as follows:

- Eurostat Statistical Programme voted budget: 92 %
- Eurostat revenues: 33 %
- Meets: 82 %
- Subdelegated appropriations: 93 %

Execution of payment appropriations in 2010 (€)



Own budget= voted budget + EFTA credits if appropriate

Revenues = Recovery orders from current year, and not consumed amount from last year recovery orders + Credits from the Swiss contribution

Payment Delays

The number of payments made in 2010 complying with contractual delays reached 88% of all operational payments, which represents a significant improvement compared to 2009 (67 %). The Commission set even stricter target delays. As concerns the number of payments respecting those Commission targets, the figures are 77 % (57 % in 2009), which correspond to an improvement but is still below the Commission average.

In 2010 Eurostat made 5 requests for reinforcement of its payment appropriations, for an amount of 4 € mio, all of which were accepted by the Budgetary Authority.

RESULTS OF REINFORCED EX-ANTE CONTROLS BEFORE FINAL PAYMENT OF GRANTS IN 2010 (INCLUDING ERROR RATES)

Ex-ante verification is mandatory on all transactions. In 2009, Eurostat defined a strategy for reinforcing financial ex-ante control of grants. The objective was to strengthen the internal control system, taking due account of the results of ex-post controls in 2008, and therein better support the assurance of the Authorising Officer by delegation (AOD) within the context of Eurostat's Annual Activity Report. Additional ex-ante checks of payments made on a sample basis were carried out at a transaction level, on the basis of additional documentation requested from the beneficiaries for the purpose of the financial initiation. This approach allows for correction before payment, therefore avoiding time-consuming recovery actions, and offers the ex-ante control team the possibility to better understand the recurrent errors made by the beneficiaries previously identified as bearing a higher risk.

In 2010, 99 cost claims (concerning nine beneficiaries) were covered by the reinforced ex-ante activities: 74 of them have been suspended in 2010, while 25 had been suspended in 2009 but were not yet solved. Among those 99 cost claims, 2 were based on the approach of a minimal coverage of non-high risk areas (random sample) and had been suspended in 2009. No new payment suspensions were made in 2010 based on the random sample approach, as the ex-ante control team had to deal with a high number of cases emerging from the coverage of high risk area (97 cost claims). The combined approaches, where controls of high-risk elements have been complemented by controls in lower risk areas (to confirm and inform the risk assessment), will provide evidence and argumentation on the error in the rest of the population on the long-term.

Risk based approach (situation on 31/12/2010 – see table below cost claims revised before payment)

In 2010, 97 cost claims (concerning eight beneficiaries) have been subject to reinforced ex-ante activities on the basis of a risk analysis. These costs claims covered both Eurostat own payment appropriations and sub delegated ones.

For 71 (concerning 7 beneficiaries), payments have been done based on the revised amounts by the Commission or revised cost claims have been received to correct the errors detected.

For 42 of these files (concerning 6 beneficiaries), the weighted error rate was 3.19% (66 797 EUR not paid). Among them, 25 had an error rate >2%.

The other 29 files, concerning a sole beneficiary, were paid with a negative correction of 10% applied to a subcategory of costs (headquarters personnel costs) and no error rate has been calculated.

Twenty-six cost claims were still under review in January 2011, mainly due to the length of reception of the supporting documents and requested clarification.

Main findings: higher hourly rate declared base on EU funds; impossibility to submit presence sheets for staff working on the action; non eligibility of declared direct costs (occupancy costs). Concerning one beneficiary under ex-ante control, there were no files closed in 2010.

Beneficiaries	N° of closed/revised payments	Invoice Gross Amount (Eur)	Paid/revised amount	Weighted Error rate*
6	42	2,137,082.34	2,070,285.00	3.19%

* Sample error calculated following the "Standing instruction for AAR - Relevant notes and guidance" = error rate for each control * weight of the payment in the sample.

Random sample approach (situation on 31/12/2010 – see table below for cost claims revised before payment)

The random sample included two cost claims amounting to 99 770 EUR. One file was paid (86 548 EUR) and it had an error rate of 0%¹⁸.

N°	Invoice Gross Amount (Eur)	Paid amount	Error rate
1	86,548.00	86,548.00	0%

EX-POST CONTROLS

Ex post controls in Eurostat are performed according to a multiannual work plan (2005/2009), implementing a detection strategy combining a risk based approach and coverage of main beneficiaries which are long term partners in the production of European statistics¹⁹. Controls have covered grants awarded for implementing the Community statistical programmes 1998-2002²⁰ and 2003-2007. In 2010, there were no new controls and the focus was on analysing the ex-post controls 2009, in particular:

- checking the quality of ex post control reports, instead of launching new controls. An analysis of the financial support provided to the Farm Structure Surveys 2003, 2005 and 2007 has been performed. It clarified that payments had to be based on a lump-sum approach instead of the real eligible costs applied so far. All open files concerned by this control will be closed in 2011.
- recruiting competent staff members, which from 2011 will be in charge of finalising pending controls.
- identifying the basis for a control strategy, as well as major changes on the management of grants, before the definition of a new multi annual ex post control programme,

¹⁸ This was calculated following the "Standing instruction for AAR - Relevant notes and guidance".

¹⁹ This has been further emphasized in the Regulation on EU statistics

²⁰ Decision 2367/2002/EC of the European Parliament and the Council , OJ L 358 of 31.12.2002

Recoveries

All recovery orders issued in the past, i.e. till 2009, have been cashed (see AAR 2009). In 2010, two recovery orders were issued and cashed for two ex-post controls finalised in 2009. They refer to the Community Statistical Programme 2008-2012.

Ex-post controls on internal transactions concerning the award of contracts in 2009

In line with Internal Control Standard for Effective Management n° 9 (Management Supervision), Eurostat carried out ex-post controls on internal transactions. The controls covered the award of contracts in 2009. The results of these controls became available in 2010 and suggest the absence of any material issue or control weakness to report in the context of the Annual Activity Report.

Multi-annual programmes

In 2010, the internal control system covers multiannual programmes managed by Eurostat by combining ex ante controls; ex post controls; and internal audit (IAC and IAS). The assessment of the effectiveness of management and control systems for multi-annual programmes is included in the key indicators on legality and regularity and sound financial management and other instruments presented in this section to present evidence that the management and control systems are effective. Building on the lessons learned from implementing the Community Statistical Programme 2008-2012 so far, Eurostat is preparing a control strategy that will be adopted by the organisation in early 2011.

Accounting quality

DG BUDG carried out a diagnostic of Eurostat's accounting quality for the 2009 exercise leading to an overall positive assessment of the DG's Accounting Environment. Eurostat performed accounting controls according to the accounting revision plan in 2010. Reinforced controls were made for Income and Intangible assets (IT projects in Eurostat). Accounting of intangible assets was granted a temporary exemption until 31 December 2009, and therefore new accounting rules were applied as from 1 January 2010. The accounting quality overall was assessed by DG Budget to be of a good quality. Centralisation of payments has improved the accounting quality in terms of fewer errors detected in the accounting controls.

Identification of the financial risks associated with ongoing litigation proceedings

A limited number of ongoing litigation proceedings²¹ concern activities related to Eurostat. The potential risk in case of judgements unfavourable to the Commission's interest can not be calculated at the current stage of the procedures.

²¹ Ares(2010)344613

Reporting from Authorising Officers by sub-delegation

AAR 2010

- **Procedure of exception related to MEETs programme**

Two commitments concerning the implementation of the Statistical programme for the Modernisation of European Enterprise and Trade (Meets 2009-2013), amounting to 1 423 568 €, have been authorised on the budget line of the Community Statistical Programme (2008-2012). Related prefinancing and final payments will also be done, by exception, on the budgetary line of the Community Statistical Programme. The budget lines of both programmes are under the same chapter of the Title 'Statistics 'of the EU budget. Corrective measures have been implemented to strengthen controls performed by actors of the Financial Circuits, and avoid repetition.

- **Staff issues**

Eurostat, like other Commission DGs, is clearly affected by the Commission's zero growth in HR. In order to cope with this situation, Eurostat undertook several important initiatives in 2010. One was the centralisation of financial initiation for payments, which allowed organising the financial circuits in a more efficient way, to improve performance and free up a number of posts. (See above). Secondly, the introduction of a new approach for the redeployment of human resources (Framework for Resource Allocation Management in Eurostat) has allowed Eurostat to redirect human resources to those areas of work considered of highest priority. As a logical consequence, lower priority areas have experienced cuts. Moreover, in the areas of IT and some statistical domains specialised expertise is difficult to find. Difficulties linked to the substantial reliance on contractual staff for some permanent core business areas also persisted.

Staff issues are also addressed in the framework of the effectiveness of the implementation of the internal control standards. Internal control standard 3 – staff allocation and mobility was prioritised in the MP 2010 (See also section 2.2.2.)

FOLLOW UP PREVIOUS ISSUES

- **Follow-up of exception procedure on provisions relating to Article 172a (2)(e) – link to AAR 2008**

Article 172 a (2)(e) of the Implementing rules of the Financial Regulation that entered into force in May 2007 stipulates that "administrative expenditure, staff and equipment costs, including the salary costs of personnel of national administrations" may be considered as eligible to the extent that they relate to the costs of activities which the relevant public authority would not carry out if the projects concerned were not undertaken.

An exception procedure was recorded in 2008, which specifies that provisions under Article 172 a(2)(e) were not checked for calls for proposals launched from May 2007 up to December 2008 and will not be checked when payment requests for grants agreements resulting from these calls for proposals are received. At the same time, the decision has been taken on measures to implement these provisions from 2009 onwards. Relevant information has been provided to stakeholders, and a system of certification has been implemented since 2009, in order to allow controls of compliance at each step of the

grant process (calls for proposals/invitation letters to submit proposals; grant agreement; request for payment).

The volume of payments on grant agreements following calls for proposals launched from May 2007 up to December 2008 corresponds to 17% of the total volume of payments in 2010. It is observed that since 2005, Eurostat grants policy excludes the financing of actions for the implementation of legislation when no explicit provision for financing is made in the legislation. Moreover, grants are awarded in accordance with basic acts as defined in Article 49 of the Financial Regulation (the Community statistical programme, as well as other specific basis such as the MEETS programme). As a conclusion, the level of risk (impact of the control deficiency) is assessed as limited and consequently acceptable from the point of view of sound financial management.

- **Grants to National Statistical Institutes for user support**

Starting in 2010, the network of user support centres is based on contracts awarded following an open Call for Tender (open procedure), as substitution of the former system, i.e. a network of support centres in National Statistical Institutes (NSIs) which were co-financed via grants. The system was operationally effective but the processing of payments under the grants was long and complex.

Following the Call for Tender, as of December 2010, there were ten active (ie with specific contracts) framework contracts with one private company and six NSIs. The outstanding payments from grants of years 2006-2009 are approximately 300 000 euro.

- **Calls for funds for contributions by Switzerland**

The EU-Switzerland Agreement on Statistics²² foresees a financial contribution from Switzerland. In 2009 this was estimated at 3.8 million euro. Switzerland disputed the calculation and only paid two-thirds of the owed amount. Eurostat made further efforts to recover the remaining third and Switzerland paid the remaining amount of 1.3 million euro in 2010.

The calculation of financial modalities of the EU-Swiss Agreement was reviewed and the revised calculation method was adopted on the EU-Switzerland Joint Committee of 1st October 2010²³. Its implementation will in the future speed up and make the call for funds less liable to dispute.

- **Financing of the HICP implementing measures by Member States**

In the framework of the better legislation initiative, work to re-cast the HICP legislation (basic act and its 17 implementing regulations) started in 2010. The legal basis will be modernised and streamlined to become more efficient and financial aspects will be reviewed.

In addition, IAC performed a risk analysis on HICP, the engagement aimed to identify potential risks related to the financial support provided for the implementation and

²² Agreement between the European Community and the Swiss Confederation on cooperation in the field of statistics OJ L 90, 28.3.2006

²³ 2010/627/EU: Decision No 3/2010 of the European Union/Switzerland Statistical Committee of 1 October 2010 amending Annex B to the Agreement between the European Community and the Swiss Confederation on cooperation in the field of statistics

development of the HICP, regarding in particular its compliance with the financial rules applicable.

The risk analysis carried out by IAC identified that the most significant risk areas relate to (i) the interpretation of certain concepts of the HICP regulation and their coherence with the current rules of the FR; (ii) the duration of certain implementing measures compared to the requirements of the basic act and (iii) forecast of expenditure and programming of grant actions.

The corrective measures undertaken should limit the potential risk derived from the obsolete HICP legislation currently in force, and should increase efficiency and cooperation in the EES. Therefore, the situation is considered acceptable and it is not appropriate to issue a reservation.

3.1.2. Building block 2. Results from independent audits during the reporting year

Opinion of the IAC

On 15 February 2011, the IAC transmitted its Annual Opinion²⁴ on the state of control of the Directorate-General as for 31 December 2010. Based on the results of the audits and scope of the engagements carried out during 2010, the IAC states that the internal control system in place provides reasonable assurance regarding the achievement of the business objectives set up for the processes audited, except for some specific issues relating to the Compliance monitoring and Procurement in Eurostat.

To address recommendations issued action plans have been defined by the relevant services of Eurostat. The synthesis of main achievements and state of play is provided in section 3.1.3 of this report.

Relevant IAS/IAC audits reports

Results from the audit work on compliance monitoring in Eurostat was released in the second half of 2010. The report includes two very important recommendations to be addressed in 2011 referring to the scope of compliance monitoring exercise and the need to include quality and methodology aspects, and the response to emerging needs, with the enhancement of compliance monitoring to fit Eurostat business objectives in the framework of the Communication 404 and the new production method.

The follow-up report of the consulting engagement on the "assessment of risks in relation to the quality of the presentation of findings of the ex-post controls" was issued in July 2010. The recommendation on the partial coverage of objectives of ex-post controls qualified as very important was assessed as not yet implemented and will be followed-up in 2011.

The Second follow-up Audit report on Eurostat management and control of PHARE credits sub-delegated by DG ELARG was issued in December 2010. It was considered that the recommendation (important) on -"Utilisation de la Compliance Database dans la phase de programmation des activités", must remain open with regard to its third part

²⁴ Ares (2011)167337

related to the "Processus de préparation de la décision d'approbation du programme statistique multi- bénéficiaire". This recommendation will be addressed in 2011.

Follow up of the recommendations issued from previous audit works are reported hereinafter.

Relevant findings of the European Court of Auditors

In its annual report concerning the financial year 2009²⁵, the Court of Auditors includes some observations as regards its yearly assessment of VAT and GNI-based own resources. This is a recurrent issue for the court that assess yearly on its report on the implementation of the budget the own resources and other revenues. Actions related to this issue are described under 3.1.3. Otherwise, as mentioned in Chapter 1, the Court gave an explicit positive assessment on the conduct of this program and provides with a positive DAS on the functioning of the control system in Eurostat.

3.1.3. Building block 3. Follow-up of previous years' reservations and action plans for audit from previous years

Follow-up of previous years' reservations

There is nothing to report in this section.

Follow-up of European Court of Auditors' findings and recommendations

In a previous report, the Court of Auditors had made recommendations relating to detailed information on GNI reservations, data and underlying systems and priorities of GNI and VAT verification work.

As a response to the recommendations to include detailed information and regulatory and legality indicators on Gross National Income (GNI) in the AAR, Eurostat established a list of indicators on statistical control in consultation with DG BUDG. Results for the last 4 years are:

REGULATORY AND LEGALITY INDICATORS ON OWN-RESOURCE GNI STATISTICAL CONTROL

	Indicators	2007	2008	2009	2010
1	Inventories received ²⁶	12	1	0	2
2	Inventories to be checked	24	25	25	27 ²⁷
3	Amount of inventory pages to be checked	12000	12500	12500	13500
4	Number of inventories translated by the Commission	1	3	1	3
5	Number of questions sent to the member states in preparation of the mission	254	2809	2391	909
6	Missions carried out	3	16	19	9
7	Missions carried out with participation of observers from other member states	3	14	16	9
8	Number of men/women-mission days				

²⁵ Annual Report concerning the financial year 2009, OJ C 303 of 9.11.2010

²⁶ 27 Member States have transmitted their inventories, 12 of them were received in 2006.

²⁷ The verification of the 27 inventories is ongoing.

	carried out				
	a)Eurostat	55	134	146	65
	b)Observers from Member States	60	102	76	53
9	Direct verifications	1	6	16	6
10	Mission reports presented to the GNI Committee	1	10	16	12
11	Action points presented to the GNI Committee in the mission reports	A full report on the mission in 2007 including recommendations was presented	225	331	135
12	Number of specific reservation points – start of year	43	25	10	4
13	New specific reservation points				
14	Specific reservation points solved	18	15	6	0
15	Number of specific reservation points – end of year	25	10	4	4
16	General (cross-country) reservation points ²⁸	1	1	1	1
17	Visits from Court of Auditors	3	4	4	4

As regards GNI data used for budgetary purposes, the validation work on the reliability, comparability, and exhaustiveness of the national accounts data continued for all Member States in 2010.

The Commission conducted a thorough analysis of the potential impact of the issues which emerged from the deficit and debt verification for Greece on the GDP/GNI levels. The work on 4 remaining GNP reservations for the period 1995-2001 continued in cooperation with the Member States concerned.

With regard to the Court's observations that the Commission should perform more direct verification in the context of checking the GNI inventories and questionnaires, direct verification was performed in six countries in 2010. In total, 29 direct verifications have been carried out since 2007 covering all Member States except for Bulgaria and Romania. These two countries transmitted their inventories in 2010, and will be subject to direct verification in the near future.

Concerning national supervisory and control systems, the Commission collected, during the GNI verifications, information on Member States' practices in particular for the purposes of the workshop it organised in December 2009. In accordance with the objectives of this workshop, the Commission is continuing its efforts to identify and develop best practices for use in the Member States, as well as assessment procedures in this domain. The conclusions from the workshop were discussed by the GNI Committee in October 2010.

Concerning National Accounts data for the VAT own resources, Eurostat actively supported DG BUDG and carried out control visits to 13 countries.

²⁸ General reservation set pending finalisation of inventory verification.

Follow-up of weaknesses reported by the Internal Audit Capability and the Internal Audit Service and in the previous Synthesis report

In June 2009, the senior management adopted a stricter and more structured approach aimed at further streamlining the process of follow-up of audit recommendations, starting with the initial phases of acceptance of audit recommendations and preparation of action plans. In addition, actions to address ICS weaknesses identified in the self-assessment were also included in the follow-up process and the progress reports presented to and discussed by the senior management. As result, the number of open audit recommendations has been significantly reduced during 2009 as have delays in implementation of audit recommendations. Therefore, a year later, in July 2010, senior management agreed on lightening the exercise and reduce the reporting to the year-end report (from twice a year), supplemented if need be with ad-hoc ones.

Open recommendations beginning 2010 concern audit reports on IT risk analysis, Evaluation function in Eurostat, Grant-Awarding, management and control of PHARE sub-delegated credits and Risk Management in Statistical Production.

IAS AND IAC RECOMMENDATIONS (CRITICAL AND VERY IMPORTANT RECOMMENDATIONS)

From the above mentioned audits, nine recommendations qualified as very important related to reports issued in 2010 "IT Risk Analysis", "Evaluation function in Eurostat" and Grant awarding". No critical recommendations were opened.

- **Critical recommendations**

None.

- **Very important recommendations**

IT Risk Analysis

Four Very Important (one originally Critical, but downgraded to Very Important) audit recommendations related to the 2006 IAS/IAC audit on IT Risk Analysis considered implemented by the auditee were considered as not yet implemented by the auditors after the second follow-up of this audit. The recommendations related to service support, protection of personal data, dataflow integrity and segregation of duties. The action plans drawn up to address these recommendations consisted of several sub-actions of which most were implemented, but certain sub-actions took longer to implement, either because specific IT tools had to be developed to properly address the recommendation (Service support); because of resource constraints or involvement of other services (Segregation of duties); dependency on information from many sources (personal data protection); or due to other events/issues that had an impact on the action (Data flow integrity). Action plans for the four recommendations should be fully implemented by mid-2011.

Evaluation function in Eurostat

IAC issued two very important recommendations in the audit report on the evaluation function in Eurostat. One of them concerned the support of the units carrying out evaluations of expenditure programmes. To address this recommendation the Evaluation charter in Eurostat has been revised and published after approval on the website. This recommendation is therefore considered implemented by the auditee.

The second very important recommendation requires ex-ante evaluations of expenditure programmes to secure compliance with the financial regulation. Preparation of the ex-ante has been launched and it is expected that the action will be completed end 2011.

Grant-Awarding

Two very important recommendations were still open at the beginning of 2010 concerning the ex-ante evaluation of projects involving resources above a certain amount, documented assessment of financing procedure and the establishment of a proper inventory as well as enhancement of the awarding process to ensure proper application of selection criteria. Actions have already been put in place to address these recommendations. A second follow up was carried out by Internal audit Service in December 2010. The follow-up concluded that all recommendations can be considered as implemented.

New/ongoing audits

Results of the audit report on procurement were available at the beginning of 2011. In addition, an audit of Internal Audit Capability in Eurostat is ongoing on GNI statistical process. The recommendations issued will be incorporated in the follow-up process in 2011.

3.1.4. Building block 4. Assurance received from other Authorising Officers in case of crossed sub-delegation

In 2010 Eurostat managed funds sub-delegated to it by 11 Directorates-General. The Director-General of DG Estat, Authorising Officer by sub-delegation, reported to the Authorising Officers by Delegation (Notes to DGs AGRI of 8/02/2011; DIGIT of 28/01/2011; EAC of 2/02/2011; ELARG of 9/02/2011; EMPL of 3/02/2011; ENTR of 31/01/2011; ENV of 9/02/2010²⁹; INFSO of 4/02/2011; HOME of 2/02/2011; REGIO of 31/01/2011; SANCO of 7/02/2011) that there were no material matters to report concerning the management of these funds.

Furthermore, DG DIGIT made a payment using appropriations subdelegated to it by Eurostat. In this context, Eurostat received a note from DG DIGIT, dated 3/02/2011, confirming that there were no material matters to report concerning the management of these funds.

3.1.5. Completeness and reliability of the information reported in the building blocks

As regards the information reported in the building blocks (sections 3.1.1- 3.1.4.), it can be stated that the information is complete and reliable and the analysis carried out provides the necessary elements in order to support the AOD in preparing his declaration of assurance and draw a conclusion whether or not to issue a reservation.

²⁹ Credits paid in the first half of 2010 were included in the 2009 report, as being part of the payment workflow. No payments have been made in the second half of 2010.

Outcome of the evaluation

- Further efforts have been pursued in 2010 to improve the internal control system. In particular, the financial initiation of payments has been centralised, together with reinforced ex-ante financial control of cost claims. A review of the ex-post control process has been initiated, together with a check of open files. It is considered that the financial management and control systems are effective.
- In its opinion, the IAC has provided qualified reasonable assurance of the state of control. Recommendations issued to mitigate risks and improve the internal control system, are addressed with specific action plans, including a description of corrective actions and a target date for the completion of each action.
- The reduction of the number of open audit recommendations continued during 2010. Open recommendations now only concern three audit reports and none are qualified as critical. Action plans have been drawn up to address them.
- In their appraisal of the risks related to operational activities and internal control system, AOSD did not report any weaknesses, malfunctioning or deficiencies with significant impact in monetary or reputational terms. Some difficulties have been expressed as regards staff allocation and recruitment, an issue addressed actively by HR policy.
- The outstanding issues from previous AARs (i.e. exception procedure regarding the application of the implementing rules of the Financial Regulation relating to Article 172 a(2)(e), grants to National Statistical Institutes for user support, call for funds 2009 for the participation of Switzerland and the Financing of the HICP implementing measures by Member States) have been monitored during 2010. The situation is considered under control, with a risk level limited and consequently acceptable from the point of view of sound financial management.
- No significant material matters have been reported as regards the management of crossed sub-delegations.

Conclusion

All in all, it is considered that no specific issues and weaknesses or shortfall in the management and internal control systems that give rise to material reservation that would have an impact on the assurance contained in the annual declaration have been identified. Weaknesses identified do not represent any significant deficiency in the system. In addition, corrective actions have already been defined and implemented. Therefore, it was concluded that a reservation would not be appropriate.

3.2 Reservations

N.a

3.3 Overall conclusions on the combined impact of the reservations on the declaration as a whole

N.a

Part 4: Declaration of Assurance

I, the undersigned, Walter Radermacher, Director-General of Eurostat, in my capacity as authorising officer by delegation

Declare that the information contained in this report gives a true and fair view³⁰.

State that I have reasonable assurance that the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

This reasonable assurance is based on my own judgement and on the information at my disposal, such as the results of the self-assessment, ex post controls, the work of the internal audit capability, the observations of the Internal Audit Service and the lessons learnt from the reports of the Court of Auditors for years prior to the year of this declaration.

Confirm that I am not aware of anything not reported here which could harm the interests of the institution.

Luxembourg, 30 March 2011

Signed

Walter Radermacher

Director General

³⁰ True and fair in this context means a reliable, complete and correct view on the state of affairs in the service.