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Directorate D: Government Finance Statistics (GFS)

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Ms Adriana Ciucea
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Romania

Subject: Recording of financial corrections related to EU funds in accordance with Regulation 1083/2006 art 100(01)

Ref.: Your letter n. 45170 dated 1 March 2013

Dear Ms Ciucea,

Following your letter under ref., I am now in a position to give you our preliminary view on the statistical recording of financial corrections related to EU funds in accordance with Regulation 1083/2006 art 100(01).

The accounting issue for which a clarification is requested

The ex-ante issue for which an advice is being sought concerns the recording of financial corrections applied as a consequence of irregularities found in the management and control system of Structural Funds. In particular, it should be clarified when is the appropriate time of recording of the financial corrections, how to record it in the government accounts and to which extent these corrections will affect the government deficit.

Documentation provided

The Romanian statistical authorities provided a brief description of the case and of their proposed treatment in national accounts. The Romanian authorities have also provided several government decisions (GD no.115712012, GD no.116012012, GD no.120012012, GD no.121212012, GD no.128712012). These decisions include information on the exact amounts of corrections for five different Operational Programmes affected by these financial corrections as well as a description of the methodology used by the Romanian Authorities for the calculation of the amounts concerned by the correction.

Description of the case

In August 2012, the European Commission requested Romania to initiate the procedures for applying financial corrections to several EU Operational Programmes due to irregularities found in the management and control system of Structural Funds.

At the end of 2012, the Romanian Authorities agreed to implement these corrections. The exact amounts involved were published in government ordinances, each ordinance specifying the exact amount (in euro) of the corrections to be imputed for every single programme of the five different Operational Programmes concerned. The Romanian authorities established these amounts by applying the flat rate correction proposed by the European Commission, which differs from programme to programme (from 10% to 25%). The European Commission neither proposed the exact amounts of the financial corrections nor formally confirmed the exact amounts calculated and published by the Romanian Authorities (of 763.9 million RON in total). It could therefore be possible that in the future some of these amounts will be rectified.

Regarding the statistical treatment, the Romanian Authorities proposed to record the total amount of the corrections in 2012 as a capital transfer (D9) to final beneficiaries. The negative impact on B9 in 2012 should already be reflected in the April 2013 EDP notification.

As far as the financial accounts are concerned, the Romanian Statistical Authorities proposed to record the transaction as a reduction in other accounts receivable (F7) of "Public Administration" (government) from the "Rest of the world" sector for the amount of million RON 440.3 related to corrections applied to public beneficiaries and as a reduction in Currency and deposits (F.2) for an amount of million RON 323.6 which concern expenditure made by government on behalf of private beneficiaries.

Methodological analysis and clarification by Eurostat

After a careful examination of the documents provided by the Romanian statistical institute (NSI), Eurostat has reached the following view.

Applicable accounting rules

Council Regulation 2223/96 incorporates the national accounts concepts and definitions of the European System of Accounts (ESA95) in Community Legislation. In particular, §§ 1.57 concerning the time of recording, are applicable. The third edition of the Manual on Government Deficit and Debt (MGDD) provides further elements for interpreting the accounting rules of ESA95. Of particular relevance in this case is section 11.6.2. Paragraphs 28 to 34 are applicable.

Analysis

Eurostat bases its opinion on the available information concerning the recording of financial corrections or disallowances. Regarding the time of recording, according to the Manual on government deficit and debt, section II.6. §29, financial corrections similar to disallowances are to be recorded "*when the Commission takes the decision of partial reimbursement of the amounts paid by the paying agencies of Member States to final beneficiaries*". Due to the fact that the European Commission requested the appliance of the financial corrections in 2012, and the Romanian Authorities agreed with the proposed corrections in 2012, the correction should be recorded in 2012, even if the financial corrections refer to expenditure incurred also before 2012.

Regarding the statistical treatment of the financial correction, according to the Manual on government deficit and debt, section II.6. §31, the total amount of the corrections should be recorded in the non-financial accounts as expenditure, as a capital transfer (D9) to final beneficiaries. Nevertheless, for the amounts to be reimbursed by the general government to the European Commission on behalf of private beneficiaries in the framework of the Operational Programme Human resources development, the government might be able to claim back, in cases of fraud, some amounts from the private beneficiaries. In this case revenue for government could be recorded at the time the amounts will be reimbursed by the private beneficiaries.

In the financial accounts, Eurostat propose to record the whole transaction as a reduction in other accounts receivable (F7) of government from the "Rest of the world" sector for the whole amount of million RON 763.9. It is in our understanding that there will be no cash flow between the general government and the ROW sector (European Institutions).

For the amounts concerned by the financial corrections, no matter if they relate to expenditure of public units or expenditure made by the general government on behalf of private beneficiaries, the transaction will be reflected in a reduction of future government revenues (F7) coming from the European Commission.

Conclusion

Following the national accounts rules on the time of recording, Eurostat expects that the full amount of 763.9 millions RON, as specified in the letter, should be recorded as government expenditure in the year 2012, starting with the April 2013 EDP Notification. Nevertheless, Eurostat should be kept informed in case the amounts specified in the letter will be rectified.

Procedure

This preliminary view of Eurostat is based on the information provided by the country authorities. If this information turns out to be incomplete, or the implementation of the operation differs in some way from the information presented, Eurostat reserves the right to reconsider its view.

In this context, we would like to remind you that Eurostat is committed to adopting a fully transparent framework for its decisions on debt and deficit matters in line with the amended Council Regulation 479/2009 and the note on ex-ante/ex-post advice, which has been presented to the CMFB and cleared by the Commission and the EFC. Eurostat intends, therefore, to publish all future official methodological advice (ex-ante and ex-post) given to Member States, on the Eurostat web site. In case you have objections concerning this specific case, we would appreciate if you let us know. In any case (regardless of whether you have objections or not) we would like to receive an answer from you on the issue no later than 15 April 2013.

Yours sincerely,



François Lequiller

Director