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**EDP upstream dialogue visit to Romania
28 – 30 August 2013
Main conclusions and recommendations – Final report**

In accordance with Council Regulation (EC) No 479/2009 of 25 May 2009 (as amended by Council Regulation (EC) No 679/2010) on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community, Eurostat carried out an EDP upstream dialogue visit to Romania on 28-30 August 2013.

Eurostat was represented by staff members from the directorate responsible for Government Finance Statistics.

Romania was represented by the National Statistical Institute of Romania (INSSE), the Ministry of Public Finance (MPF), the National Bank of Romania, the National Supreme Audit Institution (SAI) and invited upstream data providers.

The main objective of the visit was to review the quality of the EDP reporting system, in particular primary public accounting ("upstream") data sources, as specified in the Communication from the Commission to the European Parliament and the Council COM(2011)211 "Towards robust quality management for European Statistics", and in accordance with Art. 8 of Council Regulation (EC) 479/2009 as amended. Another point of interest was to review the Romanian National Statistical Institute's ability to utilise its powers under Article 16 of Regulation (EC) 479/2009 as amended by Regulation (EU) 679/2010. The visit sought to gather information on the accounting, auditing, control and reporting systems in place and to assess the strengths and weaknesses of those systems.

An upstream visit had already taken place during 20-22 June 2011. However, that upstream visit was one of a series of Eurostat visits in 2011, specifically linked to the EDP reservation issue that existed at that time. As such, the 2011 visit was limited in its scope and no specific upstream report was produced.

This 2013 follow-up upstream visit, therefore concentrated on developments since the upstream visit of 2011 and on issues not covered in that visit. It also looked in more detail at certain issues that were covered in 2011. Eurostat, in coordination with National Institute for Statistics (INSSE), reviewed practices regarding the management and control of the flows of public finance data that come from public entities to INSSE and are used to compile statistics on government deficit and debt (as defined in Council Regulation 479/2009 as amended, hereinafter "EDP deficit and debt")

I. General statements

Eurostat welcomed the cooperative approach of the Romanian authorities and their willingness to clarify and resolve the issues discussed.

The National Statistical Institute (INSSE) is the EDP statistics reporting authority for Romania and is an important co-compiler of EDP statistics in Romania. However, the Ministry of Public Finance (MPF) still continues to play its key role in the production of EDP statistics in Romania. Nearly all GFS related data either passes through the MPF before reaching INSSE or is directly produced by the MPF. The National Bank of Romania, compiles financial accounts data.

Within the European Statistical System (ESS), in order to have visibly independent statistics on key economic indicators, Eurostat considers important that each Member State has the objective of having a strong and independent NSI which plays a key and overarching role in the production of these statistics and in providing assurances as to their quality.

Eurostat noted that INSSE continues to have limited resources and limited capacity with respect to government finance statistics.

As regards the specific requirements of EDP statistics these still need to be improved in order to further strengthen the professional independence and role of NSI in this domain and to strengthen further the national system for producing EDP statistics.

II. Main conclusions, recommendations and action points

1. Governance, co-operation and resources

Eurostat welcomes the efforts to update the Formal Operational Arrangements (protocol) between the main EDP co-compilers since the last upstream-related visit in 2011 and the efforts to more clearly define the co-operation between these key partners and their roles in the EDP production process. Nevertheless, Eurostat stresses that there needs to be a clear description of the decision-making processes, which was a key observation of the 2011 upstream visit. In particular, it needs to be clear that INSSE has the sole responsibility for decision-making on statistical methods, standards and procedures and on content and timing of statistical releases.

It had been noted in 2011 that the Romanian Working Group on the compilation and transmission of the Reporting of General Government Deficit and Debt levels was subject to a rotating presidency between EDP co-compilers, even though it was covering statistical issues and taking decisions relating thereto. Eurostat welcomes the fact that it has since been decided that INSSE will have sole presidency.

In updating the Protocol, INSSE, like all NSIs, is asked to review its content against all criteria as per document GFSQM 12/009 rev1 (dated 16/01/13) which was agreed at the Eurostat Working Group on GFS Quality Management.

In order to play its overarching role in national EDP statistics, and in line with Article 16 of Council Regulation 479/2009 as amended, INSSE is required to have unrestricted access to all information it deems necessary for both the EDP or GFS statistics compilation and for monitoring upstream information from the new IT Platform currently being developed by the MPF. This IT system will be used, inter alia, for the collection, processing, compilation and control of data for EDP deficit and debt reporting. In addition, INSSE, as the national statistical office, has the key role in determining current and future statistical reporting needs in the domain of GFS and therefore needs to have an overview of the entire reporting system.

Originally, it had been foreseen that the IT system would be a genuinely common and shared IT platform between EDP co-compilers, and this had been a long-standing objective under the Protocol as it stood in 2011. However, the original plan has given way, due to reasons

largely related to resources, to an IT system undertaken fully under the control and governance of the MPF.

Informal meetings called by the MPF are the only current measure which gives the other EDP co-compilers an input to the IT system's development. Thus, there should be a more formal mechanism (e.g. forum/working group) by which the other EDP co-compilers, especially INSSE, can influence the development of the IT system both now (and in the future as it develops) to ensure that the system fully meets (EDP) statistical reporting needs.

Since the last upstream visit in 2011, Eurostat welcomes the increase in resources, albeit very limited, and in the role of INSSE in the domain of production of EDP statistics. However, this has not gone as far as was envisaged at the time, leaving INSSE with the additional tasks foreseen but not the corresponding resources that was indicated as necessary by INSSE at that time. This leaves it in a difficult position as to its ability to take on any enhanced role in EDP statistics going forward.

As the NSI, INSSE should seek to co-operate in a more proactive way with upstream data providers in assuring data quality (taking account of Art. 16 of Council Regulation (EC) 479/2009, as amended). As a first step, full access to the necessary information in the new IT system will be required. During the piloting stage of the new IT system, the NSI should take the opportunity of making direct contact, during 2014, with upstream suppliers in cases where INSSE considers that clarification of data used for EDP reporting is needed.

With respect to issues relating to governance, co-operation and resources, Eurostat makes the following recommendations:

Action Point 1: Eurostat **recommends** that, at the earliest point, INSSE formalise its information needs from the new IT system and transmit these to the MPF (and to Eurostat for information). Deadline: February 2014 but these should be updated on an on-going basis, as the IT system develops or as any new needs arise.

Action Point 2: Eurostat **recommends** the creation of a mechanism (such as a forum or specific working group) that will give all EDP co-compilers, especially INSSE, an on-going role in developing the IT system to ensure that the needs of the other co-compilers vis à vis EDP reporting requirements are always met both now and in the future. INSSE is asked to send Eurostat the document which formalises this mechanism including a list of its membership and its terms of reference: Deadline: February 2014 but EDP co-compilers are to be fully consulted before this on the current IT system developments.

Action Point 3: Eurostat **recommends** that the current update of the Protocol between EDP co-compilers include: a) a clear description of the decision-making processes, in particular, it has to be clear that INSSE has the sole responsibility for decision-making on statistical methods, standards and procedures and on content and timing of statistical releases; b) a clear statement that INSSE is to have unrestricted access to all information INSSE deems necessary to do its EDP work and to play the upstream role expected of it; c) reference to the mechanism under action point 2 above (it is understood that it might take time to set up such a mechanism but at least there should be a basic reference to it in the Protocol). Deadline: end 2013.

Action point 4: On human resources, Eurostat **takes note** that that INSSE has only received very limited additional resources since 2011, despite taking on additional roles and being faced with the future upstream and quality issues that need to be addressed. Eurostat also takes note, however, of the current freeze on posts in the public sector in Romania meaning that, for the time being, no further resources will be available to INSSE. With the introduction of the new IT system in 2014/5, the EDP reporting process will be subject to

some changes. Eurostat **recommends** that INSSE re-evaluate its resource needs based on the work going forward and report this to Eurostat. Deadline: July 2014.

Eurostat very much welcomed the openness and co-operation of the *Curtea de Conturi*, the Romanian national Supreme Audit Institution (SAI), throughout the visit. Eurostat understood that a draft protocol/memorandum of understanding between INSSE and the SAI was in existence at the time of the UDV and has since been signed, which is a welcome development. Every effort should now be made to develop this relationship in concrete terms. Indeed possibilities for closer co-operation between the two institutions were identified during the visit.

As EDP notifications are made in April and October of each year, any early indications by the SAI of issues that could have a potential impact on EDP statistics could be very helpful to INSSE. For instance, Eurostat understands that information on each year's annual SAI Public Report (annual audit report covering the issues of formation, administration, and use of state and public sector resources) is available to the SAI by September of the next year i.e., prior to the EDP notification (even if it is not published until several months later).

Eurostat recognises that SAI annual public reports are not carried out or written to expressly address issues relating to the reporting of EDP deficit and debt. However, they represent an important source of information that can draw attention to possible issues, especially to those parties that are involved in EDP statistics compilation. Eurostat is of the view that the EDP co-compilers should therefore systematically look at SAI annual reports, once they become available, in order to form their own view in this regard in consultation with the SAI, if and as required.

With regard to the SAI 2011 Public Report, during the 2013 UDV, for the issues discussed during the 2013 visit, Eurostat was reassured by the MPF, the relevant upstream entities and by the SAI that the impact on EDP deficit and debt, as a result of the conclusions of the report was minimal. Nevertheless, Eurostat was of the opinion that, in the case of the 2011 report, INSSE should, in co-operation with other co-compilers, review the report and provide its view in writing explaining whether any of the findings measurably impact EDP statistics.

Action point 5: Eurostat **requests** INSSE to provide Eurostat with a short report on its view on the quantitative impact of the relevant findings of SAI 2011 Public Report on EDP deficit and debt figures. Eurostat also **requests** INSSE to contact the SAI prior to the October 2013 notification in order to ascertain whether the SAI can provide any indication of possible issues from the preliminary information it might have for the 2012 SAI Public Report. Deadline: in time for the October 2013 notification¹ (if possible, this would also form part of future co-operation between INSSE and the SAI).

Action point 6: Eurostat **recommends** that once SAI annual public reports become publicly available, the Working Group between EDP co-compilers should, at the first opportunity, expressly discuss the findings of the report with a view to ascertaining if there might be any impact on the EDP statistics, notwithstanding that INSSE may already be aware through its co-operation with the SAI. Deadline: Annually, following the release of the SAI Public Report. INSSE should immediately inform Eurostat of any issues that may have an impact on EDP statistics.

2. Quality Management, Risk assessment and Risk Management

Regarding Quality Management, Eurostat welcomes INSSEs Quality Declaration but notes that this has not been implemented as yet in the domain of EDP. The same comment was

¹ A reply was received regarding AP5 on 30 September 2013

made in 2011. At present, there is only little in the way of a Quality Management System that relates to GFS/EDP although Eurostat acknowledges that some first steps are at least being taken to document EDP procedures in INSSE. It is acknowledged that the design, development and implementation of a Quality Management System would take some time.

With respect to issues relating to quality management, risk assessment and risk management, Eurostat makes the following recommendations:

Action Point 7: Acknowledging the aforementioned resource issues, Eurostat **recommends** that the principles in the aforesaid quality declaration be implemented, including at EDP Process level. This work should take into consideration the ESS Code of Practice (including any relevant recommendations in the last Eurostat Peer Review) and document COM 2011/211 and should include concrete procedures specifically linked to EDP quality management. INSSE should take into account the on-going work of Eurostat's Working Group on Quality Management in GFS. Deadline: see Action Point 11.

Action Point 8: Eurostat **recommends** that comprehensive operational documentation of the processes be created. That is to say that maintained procedural documentation should exist that would allow a knowledgeable person to take over the role of another by following that procedure without risk that any steps are missed. The issue of training may also have to be considered by INSSE. Eurostat acknowledges that some first steps have been taken to do this but that these are at the draft stages. Deadline: see Action Point 11.

Action Point 9: Eurostat **recommends** that, once written production and process procedures have been established, procedures for maintaining and keeping up to date such documentation be put in place. This should be linked to an operational business continuity plan at EDP process level. Deadline: see Action Point 11.

Action Point 10: Eurostat noted that electronic data transmission between parties, is sometimes performed on a rather informal basis. Eurostat **recommends** that the present practice of transmission only to and from personal e-mail addresses be replaced by a standardised, traceable data transmission procedure not relying solely on the presence of particular individuals. These procedures would form part of INSSE's EDP quality management system. Deadline: see Action Point 11.

Action point 11: Eurostat invites INSSE to start work on GFS/EDP-specific quality management issues (action points 7 to 10) and to provide an action plan **by end February 2014**, on how these action points are going to be implemented including indicative timescales. Any actions implemented so far should also be described.

Action Point 12: In 2011, it was observed that the EDP process within INSSE had not been subject to an audit by INSSE internal audit department. As this was still the case in 2013, Eurostat **recommends** that it be subject to such an audit in the future. Deadline: by end 2014 if this is possible according to INSSE's internal audit department.

On the issue of internal control within entities belonging to general government, it was noted in the 2011 SAI Public Report that internal control was often considered as in need of notable improvement. The report indicated that many entities had a lack of internal control or the internal control did not exist at all (e.g. in case of certain local entities).

It was explained by the MPF that it was aware of the issues with regard to internal control, particularly at local level (due to a lack of resources), but that steps were being taken to remedy this.

The SAI explained that, at ministry level, internal control had been improving over recent periods of time. However, this was not the case for many other units, especially at local level.

Action Point 13: On the subject of internal control, Eurostat takes note of the concerns expressed by the SAI and acknowledged by the MPF. To the extent that this applies to internal controls affecting data that is used for compiling EDP statistics, and taking into account the requirements of the Council Directive 2011/85/EU on Budgetary Frameworks, Eurostat recommends that the Romanian authorities make the necessary improvements to internal control including by acting on the findings of the SAI Public Report and to provide a progress report to Eurostat. Deadline: end 2014

3. Register of government-controlled entities (register defining full coverage of entities on which the 50% test would be applied)

The register of government-controlled entities which defines the full coverage of entities upon which the 50% test is applied is the responsibility of INSSE.

The statistical register of companies is the responsibility of another department of INSSE. The National Accounts directorate, which is responsible for EDP statistics, has no direct access to this but requests once per year, an updated list for the purposes of doing its work.

It was noted that INSSE limited its determination of which entities were considered as “government-controlled” to the structure of shareholders and ownership and did not systematically extend this to qualitative criteria such as the decision-making processes. While Eurostat was led to understand that there are currently no cases of government-controlled entities that are minority-owned by government, there should be a systematic approach to treating this eventuality.

Action Point 14: Eurostat **recommends** that INSSE introduce a documented step by step process, as part of its quality management system, to maintain and update the list of government-controlled entities (upon which the 50% test is applied) giving due consideration to both quantitative and qualitative criteria, as necessary and in reference to ESA 2010. Deadline: June 2014

Action Point 15: On the application of the 50% test itself, it appeared that this test currently excludes government-controlled entities already allocated to S13. Eurostat **recommends** that the procedure should be extended to such entities so that, if appropriate, they could be reclassified. Deadline: August 2014

The issue of inactive companies classified under government control was covered in the 2011 visit. Recommendations were made and specifically followed up in a letter dated 17/02/2012 ref 193477. Eurostat asked for clarification on any liabilities that might still exist plus a possible action to close such entities so that the list of public entities would be economically and not just legally up to date. On the latter point, this was suggested as there appeared to be a willingness from the Romanian authorities to address this.

During the Standard Dialogue Visit earlier in 2013, it was explained by INSSE that it was not possible for the SAI to assist with this action as the required work was outside the scope of their activities. It was also explained by the MPF that no progress had been made on winding up any of these inactive or defunct units. In particular, it was pointed out that it was legally very difficult to do this and that a change in the law might be required.

Eurostat therefore invites the Romanian authorities to reflect on whether they would be able to address the issue of closing defunct entities, taking into account the issues raised in letter dated 17/02/2012 ref 193477. It would be appreciated if they could provide their views in writing to Eurostat by July 2014.

Nevertheless, the Romanian authorities should be in a position to clarify whether these units, which are inactive, do not have any existing liabilities which would be included in Maastricht debt, or have recently undertaken transactions which might result in losses (which, on an aggregated basis, would non-negligibly impact B.9 of government or government debt).

Action Point 16: INSSE is **requested** to investigate the matter of inactive units and provide Eurostat with a view on whether inactive companies have any impact on the EDP figures in line with the request in the letter dated 17/02/2012 ref 193477. Deadline: June 2014

4. IT Development and Implementation Issues

This section focuses on the development and implementation of the new IT system for GFS. Issues relating to governance of the system, as well as access to the data are covered in Section 1 of this report.

The importance of appropriate and reliable IT tools for supporting the GFS statistical production (collection, storage, processing, compilation, etc.) is a very important issue and is well recognised by INSSE and the other co-compilers.

Eurostat appreciated the information that had been provided by the MPF on the integrated IT system for GFS although unfortunately this will not be the genuinely common and shared IT platform, which was a long-standing objective under the Protocol as it stood in 2011.

During the earlier 2013 Standard Dialogue Visit, Eurostat had noted the news that a contract had been signed with a contractor to technically deliver the foreseen IT system for GFS to the MPF.

Eurostat welcomes the information provided on the design of this system including direct reporting of all 15,000 government entities that exist in Romania.

Eurostat is of the view that if the IT system ultimately delivers what has been indicated both during the UDV and in the other information provided prior to the visit, it would improve transparency and would contribute significantly to improving, harmonising and standardising EDP reporting.

- Firstly, the system would eliminate some weaknesses in the present system. For instance, the MPF presently only sees consolidated information reported from other ministries and the sub-entities of these ministries do not always report their information electronically to their supervising ministry but only in paper format. The new system would allow direct electronic imputation of financial information by both the ministry and sub-entities. This would allow the data of both the ministry itself and its sub-entities to be viewed separately. It would also allow consolidated statements from ministries to be checked for consistency with the aggregated individual data.
- Secondly, the new IT system will have an electronic signature requirement for all entities and only known, authorised officers will be able to sign. This will support the accountability requirements of Article 16 of Regulation 479/2009 as amended by Regulation 679/2010. In addition, the system will be designed to reject incorrect statements and to block commitments and payables under these circumstances.

- In addition to the internal controls that will exist at the MPF to monitor information from reporting entities, it is also important to note that full real time accessibility to the IT system will be granted to the SAI. This access will allow all content to be subject to potential audit by and within the remit of the SAI. Access to all relevant information by INSSE would allow it to possibly bring identified issues to its own attention for possible verification or perhaps to the attention of the SAI in the context of the co-operation between the two institutions in this domain.

Eurostat understands that MPF has plans, even if they will not be realised straight away, to require reporting entities to include fully comprehensive details on expenditure. Primarily this will be put in place to provide better monitoring of government expenditure in general, including to monitor compliance with Directive 2011/7/EU (on combating late payment in commercial transactions).

While these plans may only be at a tentative stage and primarily for purposes other than that of EDP statistical reporting, this type of information could contribute to providing important assurances that expenditures are genuinely being reported in line with the accruals principles that are fundamental to EDP statistics. Therefore, the indication by MPF that the system could eventually capture and hold a host of very specific information such as date of order, date of commitment, date of delivery of goods, date of invoice registration, date of payment, etc. would be welcomed by Eurostat, and the MPF is encouraged to develop the system along such lines (with access provided to INSSE and the SAI).

Eurostat notes and welcomes the substantial work planned for the introduction of the new IT system. This will follow key stages of being run in parallel with the present reporting system during 2014 and the planned final introduction of the new IT system for the April 2015 EDP notification. A risk assessment and management approach is to be applied by the MPF to this transition over to the new IT system.

With respect to IT issues, Eurostat makes the following recommendation:

Action point 17: Eurostat **requests** a progress report following each of the two 2014 EDP notifications and the first 2015 notification covering progress made on both the development of the system and its implementation including any problems encountered. The first report should also describe the risk assessment and management approach used. Deadline: one month after each EDP notification up to and including April 2015.