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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN  
PARLIAMENT AND THE COUNCIL**

**Towards robust quality management for European Statistics**

# COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

## Towards robust quality management<sup>1</sup> for European Statistics

### 1. INTRODUCTION

The aim of this Communication is to set out a strategy that would give the European Union a quality management framework for statistics related to enhanced economic policy coordination which includes mechanisms to ensure the high quality of statistical indicators.

In the specific context of the EU fiscal surveillance system and of the excessive deficit procedure (EDP) exercise, the Commission has been entrusted with the task of regularly assessing the quality both of actual data reported by Member States and of the underlying government sector accounts compiled according to the European System of Accounts. Recent developments, in particular, the inaccuracy of the Greek government deficit and debt statistics,<sup>2</sup> have however demonstrated that the system for fiscal statistics did not sufficiently mitigate the risk of substandard quality data being notified to Eurostat. To address this issue, the Commission expressed the need to grant Eurostat extended powers in the field of fiscal statistics. These powers were granted by the Council in August 2010.

Furthermore, the impact of the economic and financial crisis highlighted the need to strengthen the economic governance structure for the Euro area and the European Union as a whole. The Commission reacted, on 29 September 2010, by adopting a package of legislative proposals.<sup>3</sup> This seeks to extend and improve the surveillance of fiscal policies, macroeconomic policies and structural reforms to remedy the shortcomings found in existing legislation. New enforcement mechanisms are planned in the event of non-compliance by Member States. It is clear that these mechanisms must rely on high quality statistical information, produced under robust quality management.

It is also expected that all statistical domains will benefit from enhanced quality management. In particular, the Europe 2020 strategy for growth and jobs and the reinforced economic governance, including through the European Semester of ex-ante coordination of economic policies in the European Union, will require sound,

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<sup>1</sup> As in other organisations, the requirements for quality in the European Statistical System have been standardised. Quality management is understood as a formal approach by statistical authorities to implementing the principles and indicators of the European Statistics Code of Practice through appropriate procedures and tools. It refers to a formalised system that documents the structure, responsibilities and procedures put in place for satisfying users, while continuing to improve the data production and dissemination processes.

<sup>2</sup> Report by the Commission of 8 January 2010 on Greek government deficit and debt statistics (COM (2010)1 final).

<sup>3</sup> COM (2010) 522 to 527.

high quality data and statistical analysis, on which decisions can be based and their implementation monitored, to be successful.

## 2. THE EXISTING QUALITY FRAMEWORK IN EUROPEAN STATISTICS

Statistical information is the product resulting from statistical production processes operating across the entire European Statistical System (ESS). Users of European statistics should be able to confidently use this information as an input to their own decision-making. These products should be fit for purpose. It is essential that users consider statistics to be relevant, timely and accurate, and produced in compliance with principles of official statistics, such as professional independence, impartiality and objectivity. This applies to the European Statistical System<sup>4</sup> as a whole, including Eurostat.

The overall quality of statistical information at European level is highly dependent on the appropriateness of the entire production process used to generate these statistics. If data provided by Member States are of insufficient quality, it has a negative impact on the quality of European statistics. To help prevent such situations from arising, comprehensive and robust ESS quality management is needed. This systemic approach to quality will benefit from the reform of the production method of European statistics, as it is expected to streamline the entire production chain.<sup>5</sup>

In recent years, governance of the ESS has been improved, in particular with the adoption of a European Statistics Code of Practice in 2005.<sup>6</sup> Implementation and monitoring of the Code relied to a large extent on a self-regulatory approach (self-assessments, peer-reviews and national implementation plans). Since 2009, when the European Statistical Governance Advisory Board (ESGAB) was established, the system was boosted by the addition of an external assessment and then by the entry into force of Regulation (EC) No 223/2009 on European statistics.<sup>7</sup>

European Government Finance Statistics are produced in accordance with the European System of Accounts (currently ESA 95), and form the basis for fiscal monitoring in the EU, especially for statistics related to EDP. European Government Finance Statistics differ from the budget or public accounting presentations, which are nationally specific in terms of their scope of entities and principles for recording transactions. At national level, national statistical authorities are responsible for ensuring that reported data complies with legal provisions. At European level, Eurostat is responsible for providing the statistical methodological basis on which EDP statistics are compiled, and for assessing the quality of actual data reported by Member States for EDP purposes.

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<sup>4</sup> The adoption of Regulation (EC) No 223/2009, which came into force on 1 April 2009, strengthened the legal foundations of the ESS and modernised, together with the creation of the ESGAB (European Statistical Governance Advisory Board) and the ESAC (European Statistical Advisory Committee), the ESS governance structure.

<sup>5</sup> Communication from the Commission of 18 August 2009 to the European Parliament and the Council on the production method of EU statistics: a vision for the next decade — COM (2009) 404 final.

<sup>6</sup> Recommendation of the Commission of 25 May 2005 on the independence, integrity and accountability of national and community statistical authorities. COM (2005) 217 final.

<sup>7</sup> JO L 87, 31.3.2009, p. 164.

Following the weaknesses identified in Greek government deficit and debt statistics,<sup>8</sup> the Commission was granted extended powers, allowing for an in-depth review of upstream EDP data sources. These powers were immediately applied for assessing the quality of Greek government deficit and debt statistics.

### 3. WHY FURTHER REINFORCEMENT IS NEEDED

In the context of the recent financial crisis, the weaknesses in the quality of upstream public accounting data and their statistical integration within the EDP reporting process were compounded by weaknesses in the current statistical governance arrangements. The lessons learnt also concern the credibility of national statistical systems, and of the European Statistical System as a whole. More specifically, there is a clear case for reinforcing the legal framework in place regarding the professional independence of ESS members, and for progressively moving from a mainly corrective approach to a preventive approach to the quality management of European statistics in general and public finance statistics in particular.

This Communication builds on the existing framework which lays the foundations for a governance framework for the production of European statistics. Its aim is first to address the weaknesses which have become apparent from experience gained in recent years and second to raise the quality of European statistics, taking a priority and risk-based approach that builds on existing quality management systems in Member States. It also takes into the account statistical implications of the legislative proposals adopted by the Commission on 29 September 2010, on:

- Strengthening the Stability and Growth Pact with prudent fiscal policy making;
- Preventing and correcting macroeconomic imbalances;
- Establishing national fiscal frameworks of quality, and in particular the need to put in place public accounting systems, subject to appropriate internal control and audit mechanisms, comprehensively and consistently covering all sub-sectors of general government;
- Stronger enforcement.<sup>9</sup>

This Communication echoes the conclusions of the Task Force Van Rompuy<sup>10</sup> Report of 21 October 2010 and the conclusions of the Economic and Financial Affairs Council of 17 November 2010.<sup>11</sup> It notably addresses the issue of reinforcing the implementation of the Code of Practice by Member States. Implementing this ambitious strategy will also require a careful review of statistical priorities and resources allocated to ESS members.

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<sup>8</sup> Report by the Commission of 8 January 2010 on Greek government deficit and debt statistics — COM (2010)1 final.

<sup>9</sup> [http://ec.europa.eu/economy\\_finance/articles/eu\\_economic\\_situation/2010-09-eu\\_economic\\_governance\\_proposals\\_en.htm](http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-09-eu_economic_governance_proposals_en.htm)

<sup>10</sup> [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ec/117236.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/117236.pdf)

<sup>11</sup> [http://www.consilium.europa.eu/uedocs/cms\\_data/docs/pressdata/en/ecofin/117762.pdf](http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ecofin/117762.pdf)

#### 4. THE WAY FORWARD

In order to develop and implement a quality management framework, the Commission will pursue the following two lines of action.

##### 4.1. First action line: Further strengthening the governance of the European Statistical System

###### *Reinforcing the implementation of the European Statistics Code of Practice*

The Commission intends to improve implementation of the governance framework for statistics, by proposing amendments to Regulation (EC) No 223/2009 on European Statistics, a revised European Statistics Code of Practice and a new process for the implementation of this Code by National Statistical Institutes and other relevant National Authorities, notably:

- (1) A proposal on targeted amendments to Regulation (EC) No 223/2009 will be tabled. It will make clear that the principle of professional independence of National Statistical Institutes applies unconditionally. Statistics must indeed be developed, produced and disseminated in an independent manner free from any pressures from political or interest groups or from Union or national authorities and existing institutional settings cannot restrict this principle. The mandate of statistical authorities for data collection when data are extractable from available administrative records will be enhanced by clarifying their role in the design of the content of administrative records and the quality requirements applicable to administrative data. Where appropriate, this amendment of Regulation (EC) No 223/2009 will also set a legal framework for other initiatives, in particular implementation of the new ‘Commitments on Confidence in Statistics’, allowing for a stronger Code of Practice implementation framework.
- (2) The Code of Practice will be revised to distinguish between principles to be implemented by ESS members and principles, relating to the institutional environment, to be implemented by Member State governments. The Commission Recommendation of 25 May 2005 will subsequently be updated.
- (3) The Commission proposes that Member States should formally commit themselves, based on the Code of Practice, to taking all necessary measures to maintain confidence in their statistics and to monitoring the implementation of the Code (‘Commitment on Confidence in Statistics’). The Commission will draft an agreed core of basic principles of ‘Commitments on Confidence in Statistics’ in cooperation with Member States with a view to incorporating it in Regulation (EC) No 223/2009. The detailed contents of each commitment will be elaborated with the respective Member States on the basis of the following general components, in order to achieve proper implementation of the Code of Practice at national level:
  - Each Member State would define its own quality assurance and improvement programme, reflecting its progress in implementing the Code and identifying priority actions needed to ensure proper implementation of the minimum standards. This programme would be updated as appropriate to accommodate newly identified needs;

- On a regular basis, and coordinated by each National Statistical Institute, each Member State would conduct a self assessment of the implementation of the Code, covering the entire National Statistical System. Weaknesses identified and lessons learned would feed into the quality assurance and improvement programme. Critical weaknesses should be remedied without undue delay;
- Building on these ‘Commitments on Confidence in Statistics’, and in particular on national quality assurance and improvement programmes and national self assessments, the Commission would then develop and organise its own programme to assess implementation of the Code of Practice by National Statistical Authorities.

These minimum standards apply to all statistical domains. There would also be specific requirements for the statistical domains that underpin enhanced economic policy coordination, as specified further below.

*The Role of the European Statistical Governance Advisory Board (ESGAB)*

The purpose of this Board is to provide independent supervision of Eurostat and of the European Statistical System as a whole as regards implementation of the European Statistics Code of Practice. Having assessed the role and effectiveness of ESGAB, the Commission looks forward to continuing its cooperation with this Board, from which it has benefited since it was set up in 2009. The Commission expects ESGAB to benefit from reinforced implementation and monitoring of the Code of Practice.

In line with the Decision establishing ESGAB, the Commission will take stock of experience and make further proposals on the functioning of this Board, if need be. It will also seek the advice of the Board on proposals to update the Code of Practice and on ways to facilitate its implementation.

*Eurostat’s institutional environment as regards the production of European statistics*

The institutional setting of Eurostat and the way it operates within the European Commission is defined by Commission Decision 97/281/EC.<sup>12</sup> Eurostat fulfils its coordination role as set out in Regulation (EC) No 223/2009. Its professional independence as well as the entire process of implementing the Code of Practice is supervised by ESGAB. Eurostat also maintains a permanent dialogue with users through the interface of the European Statistical Advisory Committee.<sup>13</sup> This gives Eurostat the framework it needs to play a strong and independent role in this current setting. It is thus envisaged to align Decision 97/281/EC with the current framework already implemented.

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<sup>12</sup> Commission Decision 97/281/EC of 21 April 1997 on the role of Eurostat as regards the production of Community statistics. OJ L 112, 29.4.1997, p. 56.

<sup>13</sup> Decision No 234/2008/EC of the European Parliament and of the Council of 11 March 2008 establishing the European Statistical Advisory Committee (ESAC). JO L 73, 15.3.2008, p. 13.

#### **4.2. Second action line: Preventive approach to verifying government finance (EDP) statistics**

EDP statistics are the result of re-compiling primary public finance data, herein referred to as ‘upstream data’. Recent experience has shown that it is as important to assess the quality of upstream data as it is to continue assessing the quality of the translation of this data into ESA standards. Preventive measures, such as promoting further standardisation in public accounts, and a wider proactive management of risk assessment are needed, including assessing the adequacy of the quality of upstream data for compiling statistics in accordance with ESA rules. Corrective actions will however remain as a necessary tool in parallel. Eventually, once it is assured that preventive measures are effective, the need for these corrective actions will be more limited.

*Positive benefits are expected from reinforcing the governance of the European Statistical System*

Taking a preventive approach to the verification of government finance statistics means that ‘Commitments on Confidence in Statistics’ are designed to cover the risks related to an inadequate design of National Statistical Systems as a whole. The following arrangements are also important: a clear mission statement (and ethical and organisational values known by the staff), proper management supervision and segregation of duties, an internal audit capacity or similar entity and an appropriate risk management process, including IT aspects. Substantial changes to those arrangements should be properly analysed to evaluate their impact on the risks associated to public finance statistics processes.

*Specific measures are also needed*

In addition to the need to mitigate these risks of a general nature, Eurostat will develop a specific quality management system for public finance statistics in cooperation with the National Statistical Institutes and the national bodies responsible for verifying upstream public finance data (in particular National Courts of Auditors).

The aims of a quality management approach to public finance statistics will be achieved primarily by introducing improved quality assurance systems within the ESS and close monitoring by Eurostat through systematic risk analysis and regular EDP dialogue visits. The recent revision of Regulation (EU) No 479/2009<sup>14</sup> grants Eurostat powers to operate a system of regular monitoring and verification of upstream public finance data, for all Member States, designed to significantly increase the quality of risk identification. The Commission will exercise in full these new competences by conducting more intense dialogue visits and by extending them to public entities supplying upstream public finance data to the NSIs.

This approach will facilitate a principled, systematic and consistent framework for organising methodological visits. If the Commission deems it appropriate then, as

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<sup>14</sup> As resulting from Council Regulation (EU) No 679/2010 of 26 July 2010 amending Regulation (EC) No 479/2009 as regards the quality of statistical data in the context of the excessive deficit procedure (OJ L 198, 30.7.2010, p.1).

foreseen in the new Article 11b of Regulation (EC) No 479/2009, more in-depth, methodological visits to the Member States concerned will be made at the earliest possible moment.

In this context, Eurostat will translate its recent experience into a structured preventive system applicable to all Member States. The threefold objective, in cooperation with NSIs, is to better identify, assess and monitor significant risks or problems in a proactive manner with a view to taking corrective action at the earliest possible point. To achieve this, the entire statistical production chain requires to be covered — from the sources of upstream accounting data up to final notification of EDP data reported by NSIs. Eurostat will introduce a harmonised and robust approach to quality management for EDP purposes, taking into account the relevant risk factors in its risk assessment model.

This new approach will focus on:

- The appropriateness of upstream public finance data to comply with the requirements of ESA-based accounts;
- Their exhaustiveness, in terms of coverage of the general government, with special attention to state and local sub-sectors and supervised entities;
- Their timeliness and consistency in time, including quarterly data, which is increasingly becoming a priority for users;
- The effectiveness, reliability, integrity and transparency of the process of data flows between public entities and the statistical authorities in charge of the final compilation of EDP data. It will cover an analysis of arrangements regarding the responsibility of national officials and staff involved in these workflows, the verification of accounting data by Member States at all levels of general government, as well as robust and effective supervisory and control systems at national level. For instance, a set of quality management standards tailored to the specificities of the EDP compilation process could be agreed, implemented by NSIs and certified by the Commission;
- The completeness and accuracy of the registry of entities controlled by units of the general government, and thus potentially candidates to be classified inside the general government;
- Implementation of the European Statistics Code of Practice in the context of the process of EDP compilation

This approach aims to minimise additional costs for all actors in the system as it will be based on a risk assessment, which reasonably balances efforts with prevention, detection and mitigation of risks of insufficient quality of EDP data.

Moreover, in line with its proposal for a Council Directive on requirements for budgetary frameworks of the Member States,<sup>15</sup> the Commission will support the implementation of public accounting standards providing the information needed to

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<sup>15</sup> COM (2010) 523 final.

compile ESA-based data for all sub-sectors of general government. This project encompasses the elements needed to build quarterly general government sector accounts and bridge tables between monthly cash-based reports and ESA-consistent quarterly data. Eurostat intends to play an active role within the framework of the International Public Sector Accounting Standards, which promote accrual-based public accounting close to ESA-based principles.

A more rigorous enforcement policy will supplement this new approach and infringement procedures will be systematically initiated in the event that a Member State has clearly falsified fiscal data or provided misleading information. Enforcement rules will also be envisaged in the context of the Commitments on Confidence in Statistics.

To monitor and control a more harmonised system, Eurostat will continue to build and maintain durable relationships with and across Member States. Eurostat will create a group of officials from National Statistical Institutes dedicated to:

- implementing Article 16 of Regulation (EC) No 479/2009 across the EU, regarding the responsibilities of national authorities and officials in the context of EDP, with Eurostat's involvement to work towards a harmonised EU framework;
- harmonised improvements of the quality management framework concerning government finance statistics, particularly the development of a common early warning system to identify, assess and monitor risks.

The recently revised legal framework of Regulation (EC) No 479/2009 allows Eurostat to deploy a system of regular monitoring and verification of upstream public finance data, shared by all Member States, designed to significantly increase the quality of risk identification (and subsequent assessment and monitoring). However, should the current legal basis prove insufficient to encapsulate all these aspects, the Commission will take the appropriate legislative initiatives.

## 5. NEXT STEPS

The Commission will pursue the strategy presented in this Communication, taking into account resource constraints, in line with its responsibilities under the Treaty. This strategy consists of a balanced approach that builds upon the existing achievements and ensures that the ESS can operate at arm's length but still in close relationship with its main data providers and institutional users. It is also important to underline that this new approach in statistical quality management will not lead to further bureaucratic requirements, increased administrative burdens on respondents, or to delays in the statistical production.

Given the different issues at stake, it is important to make swift progress while consulting key stakeholders, including where legislative initiatives are needed, i.e.:

- (1) Amending Regulation (EC) No 223/2009 to strengthen the provisions related to the independence of ESS members, to require an active role of NSIs in defining the quality requirements of administrative data sources, and to set up a legal framework for the design and implementation of the new Commitments on Confidence in Statistics;

- (2) Revising the European Statistics Code of Practice to distinguish between principles to be implemented by ESS members and principles, relating to the institutional environment, to be implemented by Member States' governments and eventually amending Commission Recommendation of 25 May 2005;
- (3) Amending Decision 97/281/EC on Eurostat's institutional role to align it with the current governance framework already implemented.

The Commission will also address new needs for statistical information, in particular those arising from the adoption of the package on Economic Governance, as proposed by the Commission on 29 September 2010. The Commission will take further initiatives if the need for more robust quality management in those areas arises, in addition to the usual quality requirements applicable to official statistics.