



Council of the
European Union

Brussels, 24 May 2016
(OR. en)

9391/16
ADD 1

ECOFIN 497
UEM 233

COVER NOTE

From: Secretary-General of the European Commission,
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 11 May 2016

To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of
the European Union

No. Cion doc.: C(2016) 2633 final

Subject: ANNEX to the Commission Decision on the launch of an investigation
related to the manipulation of statistics in Austria as referred to in
Regulation (EU) No 1173/2011 of the European Parliament and of the
Council on the effective enforcement of budgetary surveillance in the euro
area

Delegations will find attached document C(2016) 2633 final.

Encl.: C(2016) 2633 final



Brussels, 3.5.2016
C(2016) 2633 final

ANNEX 1

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IRREGULARITIES IN THE COMPILATION, RECORDING AND REPORTING OF EXPENDITURES IN THE LAND SALZBURG

SUMMARY

On 9 December 2012 officials responsible of the financial management of Land Salzburg held a press conference, reporting that risky investments by a state employee had caused an accounting loss of €340 million.

As a result, an in-depth investigation of the financial situation of Land Salzburg was launched at the end of 2012 by the Austrian Court of Audit, (Rechnungshof, hereinafter “RH”). The findings of the RH were released on 9 October 2013. This audit, following up on findings of former audits by the RH into Land Salzburg, undertook a more detailed scrutiny of the internal control systems and of the financial management of Land Salzburg, including the recording of transactions in public accounts, their risk profile and related cash management. Furthermore, the audit involved an inventory exercise with regard to open financial transactions of Land Salzburg as of 31 December 2012 and to results of the early termination of financial operations occurring in the last quarter of 2012.

Following the RH findings of 9 October 2013 the Commission (Eurostat) immediately took contact with Statistics Austria (hereinafter “STAT”), which provided further information over the following days. However, it was not possible at such short notice to analyse the statistical impacts of the findings, beyond an overall analysis of possible magnitudes of the impact. Due to the uncertainties about the statistical impact of the RH findings, the Commission (Eurostat), in its Excessive Deficit Procedure (hereinafter “EDP”) news release of 21 October 2013, expressed a reservation on the quality of the data reported by Austria.

On 10 March 2014, STAT provided the Commission (Eurostat) with the results of its internal analysis of the statistical implications of the RH findings and announced that, after the incorporation of the new Land Salzburg data, the general government debt of the years 2010, 2011 and 2012 would be revised upwards (+0.3pp of GDP in 2010, +0.3pp in 2011, +0.4pp in 2012). The Commission (Eurostat) required some further clarifications, that STAT promptly provided through letter of 28 March 2014. In its EDP news release of 23 April 2014, Eurostat withdrew its reservations on the quality of the data reported by Austria, since the necessary revisions had been introduced in the reported deficit and debt data.

After an examination of the facts by the Commission (Eurostat), it became clear that the case of unreported debt in the Land Salzburg was serious and that it had several elements resembling the ones that led the Commission (Eurostat), in 2014, to open an investigation into the alleged misreporting of expenditure in Valencia. The similarities include the facts that in both Member States the respective Courts of Auditors had published findings indicating the existence of several and severe irregularities in the financial management of each of the regions, that the events in both cases led to an incorrect reporting of deficit (Valencia) or debt (Salzburg) figures for considerable amounts, on which the national statistical authorities in both countries were allegedly not informed during many years and that the two Regional Parliaments and the two regional governments in exercising their respective powers seemed to facilitate the incorrect reporting of transactions.

These elements led the Commission (Eurostat) to realise that further and more thorough analysis of the facts was needed. In this internal preliminary phase of analysis, it appeared that while Land Salzburg was reporting a debt of €1,370 million (at nominal value) for 2012, its real debt was of €3,507 million (at nominal value), and hence it was underreporting its debt by €2,156.6 million, i.e. 0.7% of GDP, which led to underreporting of general government consolidated debt by 0.4% of GDP in that year.

The main actors involved in the events described would appear to be Land Salzburg's Landtag (notably in 2006), the State Governments of the relevant years, as well as the State Office, namely the Financial Department and the Regional Court of Audit (LRH). The role of the several entities of Land Salzburg in the events surrounding the non-recording and non-reporting of financial transactions is indicated in an internal analysis prepared within the Commission (Eurostat)¹.

The internal analysis prepared within Commission (Eurostat) would indicate that, from the year 2002, the executive and legislative powers in the State of Salzburg respectively acted and legislated with a view to granting unlimited powers to the Financial Management Department of the Land Salzburg, and to enter and conclude high-risk financial transactions with credit institutions, for unlimited time and unlimited amounts, while at the same time exempting that Department from being monitored by the Internal Audit Department of the Land Salzburg.

Likewise, the internal analysis indicates that the LRH failed to effectively and efficiently audit the activities of the Financial Department and hence the accounts of Land Salzburg. According to the RH, the LRH did not conduct the reviews of Land Salzburg's financial statements in compliance with the national and international auditing standards and guidelines and did not cross-check the data being presented to it with Austrian Federal Financing Agency information concerning loans between the latter and Land Salzburg.

The key role of the Financial Department of Land Salzburg in these events, namely the Budget Unit, is individualised in this internal analysis. In this context, it seems inter alia that the Financial Department engaged in high-risk financial investments, disregarding the RH's recommendations, engaged in debt to finance those speculative investments, manipulated Land Salzburg's accounts for several years, concealed and/or misreported revenues, expenditures, financial transactions, financial positions and cash movements, falsified

¹ The internal analysis prepared within the Commission (Eurostat) is largely based on the published findings of the RH, cf. http://www.rechnungshof.gv.at/fileadmin/downloads/2013/berichte/teilberichte/salzburg/Salzburg_2013_07/Salzburg_2013_07_1.pdf

documents and forged signatures, violated expenditure ceilings since 2002, and concealed information on more than 300 bank accounts and their turnover of €9.5 billion.

Moreover, it is the understanding of the Commission (Eurostat) that, from May to December 2012, for more than 6 months, the government of Land Salzburg, which at that stage should have been fully informed on the facts, concealed relevant information that it was obliged to provide to the RH, the judicial institutions and the statistical authorities. Instead, it would seem that the administration and government of Land Salzburg as of 15 October attempted to terminate all financial investments before the facts were disclosed. Finally, it is the understanding of the Commission (Eurostat) that only in the following year (9 October 2013), and 16 months after the facts allegedly came to the knowledge of the government and administration of Land Salzburg, the National Institute of Statistics of Austria was informed of these findings.

In conclusion, this internal analysis indicates that a misreporting of EDP figures occurred in Land Salzburg during a considerable period of time as a result of the concealment of financial transactions, financial positions and related property income revenue and expenditure. As a result, for a long time erroneous data was transmitted to the Commission (Eurostat), thereby jeopardizing the reliability of data, which is an essential input to economic policy coordination in the Union. The role of all the main actors will have to be fully assessed in this respect. There are strong indications therefore that this is a case, at least, of serious negligence by the responsible entities of Land Salzburg which should therefore be properly further investigated.

It is important for the credibility of European statistics that possible cases of serious negligence or deliberate misreporting are investigated in the context of Regulation (EU) No 1173/2011 and, if confirmed, that appropriate sanctions be applied as a deterrent for possible future cases in any country of the European Union².

² It is recalled that the formal investigation related to the manipulation of statistics in the Autonomous Community of Valencia led to the adoption of Council Implementing Decision (EU) 2015/1289 of 13 July 2015 imposing a fine on Spain for the manipulation of deficit data in the Autonomous Community of Valencia, OJ L 198, 28.7.2015, p. 19, cf Report of the Commission of 7 May 2015 on investigation related to the manipulation of statistics in Spain as referred to in Regulation (EU) No 1173/2011 of the European Parliament and of the Council on the effective enforcement of budgetary surveillance in the euro area (Commission Decision of 11 July 2014), COM(2015) 211 final.