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REPORT FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

Towards implementing harmonised public sector accounting standards in Member States

The suitability of IPSAS for the Member States
{SWD(2013) 57 final}

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1. LEGAL BACKGROUND AND CONTEXT

This report fulfils the Commission's obligation, under Article 16(3) of Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States[1], to assess the suitability of the International Public Sector Accounting Standards (IPSAS) for the Member States by 31 December 2012. It is based on information received through consultation with Commission services, international organisations such as the IMF, expert practitioners and other interested parties within the Member States and beyond, as well as the IPSAS Board, the standard-setter for these standards.

The sovereign debt crisis has underlined the need for governments to clearly demonstrate their financial stability and for more rigorous and more transparent reporting of fiscal data. Council Directive 2011/85/EU (the Budgetary Frameworks Directive) recognises the crucial role in EU budgetary surveillance of complete and reliable fiscal data, comparable across Member States. It therefore sets out the rules on Member State budgetary frameworks that are necessary to ensure compliance with the obligation under Article 126 of the Treaty on the Functioning of the European Union (TFEU) to avoid excessive government deficits. On the one hand, fiscal discipline plays an essential role in safeguarding Economic and Monetary Union, and on the other hand, financial stability is based on trust. This report discusses one of the tools for building this trust and for better measuring and forecasting the fiscal situation: harmonised public sector accruals-based accounting standards.

Article 3 of Directive 2011/85/EU requires Member States to 'have in place public accounting systems comprehensively and consistently covering all sub-sectors of general government and containing the information needed to generate accrual data with a view to preparing data based on the ESA 95 standard'[2]. It thereby acknowledges the essential incoherence between public sector accounts, which only record cash flows, and the fact that EU budgetary surveillance is based on ESA 95 accruals data. This means that cash data have to be converted into accruals through approximations and adjustments involving macro-based estimates. Moreover, where accruals accounts do not exist at the micro level, financial transactions and balance sheets have to be derived from a variety of different sources, leading to a 'statistical discrepancy' between the deficit compiled via non-financial accounts and that compiled via financial accounts.

The lack of coherence between primary public-sector accounts and ESA 95 accruals data is also acknowledged in the Commission communication of 15 April 2011 to the European Parliament and the Council *Towards robust quality management for European Statistics*[3]. This communication draws attention to the high dependence of the quality of European-level

1 OJ L 306, 23.11.2011, p. 41.

2 Council Regulation (EC) No 2223/96 of 25 June 1996 on the European system of national and regional accounts in the Community, OJ L 310, 30.11.1996, p. 1.

3 COM(2011) 211 final.

statistical information on the appropriateness of the entire production process. Eurostat therefore promotes a system of harmonised accruals-based accounting standards, consistent with the ESA, for all entities of the government sector.

IPSAS is currently the only internationally recognised set of public-sector accounting standards. It is founded on the international financial reporting standards (IFRS) widely applied by the private sector and at this point consists of a set of 32 accruals accounting standards, plus one cash-based standard.

It is in this light that Article 16(3) of Directive 2011/85/EU requires an assessment of the suitability of IPSAS for the Member States.

2. INTRODUCTION

Government activity accounts for a major part of gross domestic product (GDP) in all EU economies, and government assets and liabilities are substantial in all EU countries. It is therefore important that they are effectively managed and that governments are accountable for this management to their citizens, their representatives, investors and other stakeholders.

Government finance statistics provide information on the accounts of the different sub-sectors of general government so that policy makers and other stakeholders are able to analyse the financial position and performance of government and the long-term sustainability of public finances. The main sources of these statistics are the accounting records and reports of the various government entities, supplemented with financial information. Reliable government financial accounts are essential for the preparation of national accounts and of course for fiscal planning, coordination and supervision.

Two of the most important indicators of fiscal sustainability are debt and deficit, which are used within the EU for monitoring compliance with the terms of the Stability and Growth Pact. Article 126 TFEU and Protocol No 12 on the Excessive Deficit Procedure (EDP), annexed to the Treaties, specify that the ratio of planned or actual government deficit to GDP shall in principle not exceed 3% and the ratio of government debt to GDP shall in principle not exceed 60%. The Commission closely monitors these constraints on national fiscal policy in order to ensure the efficient functioning of Economic and Monetary Union. When a Member State fails to keep within the limits and this situation is considered to be more than just exceptional and temporary, an EDP could be launched. After the Commission has expressed an opinion, the Council then decides, on a proposal by the Commission, whether an excessive deficit exists and, if so, address the Member State with recommendations and a timetable for corrective action.

3. WHY HARMONISED ACCRUALS-BASED PUBLIC-SECTOR ACCOUNTING STANDARDS ARE NEEDED

Accruals accounting is the only generally accepted information system that provides a complete and reliable picture of the financial and economic position and performance of a government, by capturing in full the assets and liabilities as well as revenue and expenses of an entity, over the period covered by the accounts and at the moment they are closed. Accruals accounting entails the recording of entries, not when cash payments are made, but when economic value is created, transformed or extinguished, or when claims and obligations arise, are transformed or extinguished. Cash accounting records transactions when the amount is received or paid. Accruals accounting is economically sounder than cash accounting, which is why the current accounting framework for fiscal monitoring in the EU, the ESA 95, is accruals based. Moreover, the use of accruals accounting in the public sector is necessary to avoid some of the window-dressing that is allowed by cash accounting, where a payment can be brought forward or postponed so as to be recorded in the period that the government chooses. However, accruals accounting is not meant to abolish or replace cash accounting, in particular where the latter is used for the purposes of budgeting and budget control. In fact, accruals accounting should be seen as complementary, rather than as an alternative, to pure 'cash accounting'. In providing the full picture of the economic and financial position and performance of the entities, it puts cash accounting in its overall context.

There would be distinct benefits for public-sector management and governance in adopting a single set of accruals-based accounting standards at all levels of government throughout the EU. Accruals micro accounting in the public sector is expected to improve the effectiveness and efficiency of public administration and to facilitate the securing of liquidity that is a necessary condition for maintaining a functioning public service. As with any other economic activity, the management and control of public sector effectiveness and efficiency hinges on that of its economic and financial position and its performance. Double-entry accruals accounting is the only generally accepted system that provides the necessary information in a reliable and timely manner. Furthermore, harmonised accruals-based government accounting improves transparency, accountability and the comparability of financial reporting in the public sector, and may serve to improve the efficiency and effectiveness of public audit.

3.1. Current situation with regard to accruals accounting in EU Member States

The majority of Member States have already implemented accruals accounting according to national standards across the government sector, or are in the process of doing so. Eleven have mixed systems, in that they have implemented different accounting practices at different levels of government[4]. The accounting framework and accounting systems of the European Commission and the other EU institutions and bodies are accruals based and inspired by IPSAS. This is also the case for several other international organisations.

While there is, therefore, a growing (but not unanimous) acknowledgment of the need for accruals accounting for government within the EU and its Member States, a harmonised approach is currently lacking.

3.2. Macro-accounting framework

The ESA provides the macro-level statistical accounting framework for the government and non-government sectors in the EU and is accruals based. ESA-based government debt and deficit data for EDP purposes are the result of consolidating the individual accounts of general government entities in the Member States and are defined by EU legislation.

In the context of EU fiscal surveillance and the EDP, the Commission, in accordance with Article 126 TFEU, has 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 ESA. Recent developments, in particular incidences of inappropriate financial reporting by some Member States, have demonstrated that the system for fiscal statistics has not sufficiently mitigated the risk of substandard quality data being notified to Eurostat. Furthermore, the impact of the economic and financial crisis has highlighted the need to strengthen the economic governance structure for the euro area and the European Union as a whole. The Commission responded on 29 September 2010 by adopting a package of legislative proposals, the 'European economic governance package' (referred to as the 'six-pack'), which was adopted by the European Parliament and the Council on

[4] 'Overview and comparison of public accounting and auditing in the 27 Member States'

16 November 2011[5]. 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 on the basis of robust and harmonised accounting standards adapted to the European public sector.

The existence and quality of comparable and coherent upstream accruals data (i.e. the primary accounting data for government entities) at micro-accounting level are preconditions for the high quality of debt and deficit data at accruals-based macro-accounting level. Micro public-sector accounting in the Member States has many variants, making comparisons difficult both within and between Member States. The current approach of reconciling non-harmonised micro-level public-sector accounting data for EDP purposes is reaching its limits.

Harmonised micro-accounting systems for all public-sector entities (i.e. general government) in all EU Member States, combined with internal control and external audit, seems the only effective way forward to compile accruals-based debt and deficit data of the highest quality standards in accordance with existing legal requirements. This is also one of the key ideas behind Directive 2011/85/EU.

3.3. Need for harmonisation

For the compilation of macroeconomic statistics on government and with reference to Article 338 TFEU, the requisite statistical data would be considerably improved if all government entities used harmonised accounting standards. This would allow for the use of common bridge tables to compile the entity accounts into ESA accounts, thus greatly facilitating the statistical verification processes.

Fiscal transparency is necessary for macroeconomic stability and for surveillance and policy advice. Harmonised standards for public sector accounting would enhance transparency, comparability and cost efficiency, and provide the basis for improved governance in the public sector. At the macro level, the financial crisis underlines the importance of timely and reliable financial and fiscal data, and evidences the consequences of insufficiently complete and comparable financial reporting in the public sector.

In the longer term, one might envisage a move towards a refinement of the main EDP indicators by deriving macro public accounting (deficit/debt) results based on the much more direct consolidation of consistent and exhaustive micro accounts. The adoption of an integrated accounting and reporting framework with some adaptations to ESA 95 concepts would make it possible to derive the debt and deficit data directly from those systems. They could be based on genuine and harmonised public-sector accounting data, which had been

5 Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area, OJ L 306, p. 1; Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area, OJ L 306, p. 8; Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, OJ L 306, p. 12; Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306, p. 25; Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, OJ L 306, p. 33; Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, OJ L 306, p. 41.

subject to control and audit, be it directly on the key indicators or indirectly through the financial statements. This could also help reduce the time taken to report the deficit and debt.

Governments have a public interest obligation to market participants — owners of government debt securities and potential investors — to provide timely, reliable and comparable information on their financial performance and position, in the same way that listed companies have obligations to equity market participants. Also, there is a need to ensure a minimum level of international comparability, especially as government securities compete against each other in a global financial market, which calls for a system based on general public-sector standards accepted worldwide. With reference to Article 114 TFEU, harmonised accruals accounting would provide greater transparency for the proper functioning of the internal market in financial services, without which there is a danger that owners of government securities would be entering into transactions without a proper understanding of the level of associated risk. This in turn could create a contagion risk, which can be a significant impediment to financial stability.

What is true for private-sector accounting standards, which are harmonised within the EU for listed companies, is also true for government entities. Harmonised accruals-based public-sector accounting would provide a firmer basis for understanding the economic position and performance of governments and government entities at all levels. The superiority of the accruals principle, whether for macro or micro fiscal monitoring, is indisputable. The macro level is already accruals based; harmonised accruals accounting is also essential at micro level.

At the entity level, there would be benefits in terms of transparency and accountability, and for the quality of decision-making because the information available would reflect all relevant costs and benefits in a comparable manner. Moreover, the prospect of further fiscal and budgetary integration in the EU highlights the need for harmonised public-sector accounting standards in order that budgetary decisions at national level can be assessed at EU level. For the sake of accountability and transparency, government entities should report in a complete and comparable manner on their use of public resources and their performance.

3.4. Future EU governance of budgetary policies

The Van Rompuy/Barroso/Juncker/Draghi report *Towards a Genuine Economic and Monetary Union* stresses the need for integrated budgetary and economic policy frameworks and for example states that:

‘*Sound national budgetary policies are the EMU's cornerstone*

The near term priority is to complete and implement the new steps for stronger economic governance. In the past few years, significant improvements to the rules-based framework for fiscal policies in the EMU have been enacted ('Six-Pack') or agreed (Treaty on Stability, Coordination and Governance), with greater focus on prevention of budgetary imbalances, on debt developments, on better enforcement mechanisms, and on national ownership of EU rules. The other elements related to strengthening fiscal governance in the euro area ('Two-Pack'), which are still in the legislative process, should be finalised urgently and be implemented thoroughly. This new governance framework will provide for ample ex ante coordination of annual budgets of euro area Member States and enhance the surveillance of those experiencing financial difficulties. ’.

Many of the principle objectives advocated at the Council Directive 2011/85/EU, such as the greater transparency and accountability of the public sector, as well as more reliable, timely and more comparable fiscal statistics necessitate a common, harmonised and detailed accounting and reporting tool.

This report is fully supportive of the Communication from the Commission *A blueprint for a deep and genuine economic and monetary union — Launching a European Debate*[6].

3.5. Potential costs of harmonisation

Against the potential benefits must be set the costs of implementing a harmonised accruals-based government accounting standard in the EU Member States. The information made available by countries which have moved to accruals accounting allows us to estimate only in very broad terms what the costs for the Member States might be, although they are likely to be significant. Costs are strongly influenced by the scale and pace of accruals implementation, the size and complexity of the government sector, and the completeness and reliability of existing systems. In addition, experience suggests that Member States might find it appropriate to modernise their public financial management systems when implementing the new accounting standards.

As an order of magnitude, and based on the experience of those countries for which cost data are available, the possible cost for a medium-sized EU country of moving from a cash-based accounting system to an accruals-based accounting system, for central government but no other layers of government, could be up to EUR 50 million. This amount would include, for example, the expense of putting in place the new standards and the associated central IT accounting tools, but not the costs associated with a complete reform of the system of financial reporting. For larger Member States and, for example, those with systems of autonomous regional government or more complex government systems, and those which have not made progress on accruals accounting, the costs could be much higher, especially if the transition to a harmonised accruals system is combined with wider reforms of accounting and financial reporting practices. For example, the cost of the accruals and budgeting reforms in France over the last decade was put at EUR 1 500 million. For a smaller Member State with national systems of accruals accounting already in place, the costs might be less than EUR 50 million. All of the cost estimates collected fall within the range of 0.02-0.1 % of GDP. In addition, the implementation of harmonised accruals accounting for the Member States would also require significant investment in terms of leadership, expertise and resources for the European Commission.

It should also be borne in mind that, despite the fact that accruals accounting is a more elaborate system than pure cash accounting, the multitude of different accounting standards, charts of accounts, booking processes and IT systems, as well as auditing standards and practices that often co-exist, even within one sub-sector of general government in a single Member State, suggests that harmonisation will bring about a reduction in bureaucracy and costs which in the medium to longer term would far outweigh the expected investment. Furthermore, the real and significant expected financial costs can be weighed against the potential benefits, not least those of better governance, accountability, better public sector management and the transparency needed for the proper functioning of markets, thus probably reducing the yields required by owners of government securities (although this is not measurable).

4. INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)

As noted above, IPSAS is currently the only internationally recognised set of public sector accounting standards. It stems from the idea that modern public sector management, in line with the principles of economy, effectiveness and efficiency, depends on management

[6] COM(2012) 777 final.

information systems that provide timely, accurate and reliable information on the financial and economic position and performance of a government, as would be the case with any other type of economic entity.

At present, the national government accounting standards of 15 EU Member States make some link to IPSAS. Of these, nine have national standards based on or in line with IPSAS, five make some references to it and one uses it for some parts of local government. However, despite recognition of the high value of IPSAS, no Member State has implemented it in full.

This report is accompanied by a Staff Working Document which summarises the IPSAS system and Member States' current arrangements for public sector accounting[7]. In addition, Eurostat carried out a public consultation between February and May 2012 to collect views on the suitability of IPSAS and a summary of the replies received is also available[8].

Taking into account the views that Member State authorities and others put forward in the public consultation, the overall conclusion is twofold. On the one hand, it seems clear that IPSAS cannot easily be implemented in EU Member States as it stands currently. On the other hand, the IPSAS standards represent an indisputable reference for potential EU harmonised public sector accounts. On the one hand, the following concerns will need to be addressed:

- Currently, the IPSAS standards do not describe sufficiently precisely the accounting practices to be followed, taking into account that some of them offer the possibility of choosing between alternative accounting treatments, which would limit harmonisation in practice;
- At its current state of development, the suite of standards is not complete in terms of coverage or its practical applicability to some important types of government flows, such as taxes and social benefits, and does not take sufficient account of the specific needs, characteristics and interests of public-sector reporting. A major issue is the capacity of IPSAS to resolve the problem of consolidating accounts on the basis of the definition used for general government, which is now a core concept of fiscal monitoring in the EU;
- At present, IPSAS can also be regarded as insufficiently stable, since it is expected that some standards will need to be updated once work is completed on the current project of completing the IPSAS conceptual framework, expected in 2014; and
- At present, the governance of IPSAS suffers from insufficient participation from EU public-sector accounting authorities. During 2012, the governance framework of IPSAS was being reviewed to address issues of concern to stakeholders. Any reform should ensure that the independence of the standard-setting process is strengthened, while public-sector-specific needs are effectively addressed. In addition, the IPSAS Board currently seems to have insufficient resources to ensure that it can meet with the necessary speed and flexibility the demand for new standards and guidance on emerging issues in the evolving fiscal climate, particularly in the wake of the crisis.

On the other hand, most stakeholders agree that IPSAS would be suitable as a reference framework for the future development of a set of European Public Sector Accounting Standards, referred to below as 'EPSAS'.

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[7] Commission Staff Working Document accompanying the document *Report from the Commission to the Council and the European Parliament: Towards implementing harmonised public sector accounting standards in Member States.*

[8] Public consultation — Assessment of the suitability of the International Public Sector Accounting Standards for the Member States: Summary of responses.

5. How to move towards harmonised European public sector accounting standards (EPSAS)

The final decision as to whether to move to EPSAS requires further important steps to be taken which do not fall within the scope of this report and hence cannot be anticipated here. However, the following sections illustrate how EPSAS could be implemented if the effective decision was taken.

EPSAS would give the EU the capacity to develop its own standards to meet its own requirements with the requisite rapidity. It would offer a set of harmonised accruals-based public-sector accounting standards, adapted to the specific requirements of EU Member States, that could be implemented in practice. The EU-wide implementation of EPSAS would dramatically reduce the complexity of methods and compilation processes used to transform these data onto a quasi-harmonised basis and minimise risk as regards the reliability of the data notified by Member States and published by Eurostat.

It can be envisaged that the first step would be to establish EU governance for this project with the objective of clarifying the conceptual framework and the aim of common EU public sector accounting. EPSAS could initially be based on the adoption of a set of key IPSAS principles. EPSAS could also use IPSAS standards that were commonly agreed by Member States. EPSAS should, however, not regard IPSAS as a constraint for the development of its own standards.

However, it should be noted that drawing up a set of harmonised European public sector accounting standards would not in itself guarantee timely and high quality public accounting data. Additional conditions would have to be met, including:

- Strong political support and joint ownership of the project;
- Public administrations capable of running a more complex accounting system in each individual public entity;
- Integrated IT systems for budget, payment, contract management, double-entry book-keeping, invoice management and statistical reporting;
- Timely reporting (e.g. monthly) of all economic events in the integrated accounting system of the public entities;
- Availability of resources, human and modern IT; and
- Effective internal control and external financial audit of public accounting.

For all Member States, but in particular those that currently use only cash accounting, the implementation of EPSAS accruals accounting would be a major reform. Some of the issues that would arise are:

- Conceptual and technical accounting issues;
- Staff and consultant expertise, training skills;
- Communicating with and educating managers and decision-makers;
- Liaison with, and training of, auditors;
- Adjustment or modernisation of IT systems; and
- Adapting the existing national regulatory frameworks.

If the principle of EPSAS were adopted, the Commission could envisage providing assistance in some of these areas, for instance by playing a role in organising the sharing of training and expertise, assisting Member State governments on conceptual and technical matters, or coordinating and sharing the planning of Member States' public accounting reforms.

If a Member State had significant and evident gaps, weaknesses and inconsistencies in its public financial management information systems, it would be appropriate to consider these in plans to implement EPSAS and this would have to be reflected in the implementation timetable.

5.1. EPSAS structures

The development and adoption of the EPSAS standards would call for strong EU governance. The system to develop and govern EPSAS would define the agenda for the development of each standard and there would need to be clear endorsement procedures. The EPSAS governance structure would need to encompass the necessary tasks as regards legislation, standard setting, and provision of technical and accounting advice.

The establishment of the EPSAS governance structure would be guided by, but not follow exactly, the model used by the Commission in establishing the governance of IFRS in the EU context, because of the specificity of the public sector and the focus on intra-EU comparability. It should seek to use, where possible, the experience and expertise of national public-sector accounting governance structures in the Member States.

Nevertheless, EPSAS would need to establish and maintain close links to the IPSAS Board in order to inform its agenda and decision-making and because EPSAS standards may need to differ in some cases from IPSAS standards. It would be important not to create unnecessary divergence between EPSAS and IPSAS, and between EPSAS and IFRS, given that government-controlled entities may already be required to report on an IFRS basis or according to national commercial accounting standards.

EPSAS should also be developed with a view to minimising differences with the ESA, in order to give the perspective, ultimately, of complete integrated systems applicable at micro and macro levels.

5.2. Adoption of EPSAS

The development, endorsement and implementation of EPSAS would have to be a gradual process, which would take place over a period of time. Implementation would be in steps over the medium term, focusing at first on the accounting issues where harmonisation is most important, such as revenue and expenditure (taxes and social benefits, liabilities and financial assets) and at a later stage considering non-financial assets, etc.

The way forward should be selective and take particular account of the perspective of small and medium-sized entities and the aspect of materiality. The strategy would need to define priorities, set key deadlines and thus put forward a concrete road map. In order to take forward the EPSAS project, the Commission, in cooperation with the Member States, would draft an agreed core of basic European Public Sector Accounting Principles with a view to incorporating them in a proposal for a Framework Regulation. The Framework Regulation should also lay down the system of governance for EPSAS and the procedure for developing specific EPSAS standards.

In order to ensure suitable implementation at national level, the detailed contents of each standard would be elaborated with the assistance of the Member States so as to take account of the following requirements:

- Accruals-based accounting;

- Double entry book-keeping;
- Internationally harmonised financial reporting; and
- Taking into account the consistency with ESA principles.

5.3. What could be a first set of EPSASs?

The first element could be a proposal for a Framework Regulation requiring the application of the accruals principle.

The EPSAS standard-setting body could then classify the 32 accruals IPSAS standards into three categories:

- Standards that might be implemented with minor or no adaptation;
- Standards that need adaptation, or for which a selective approach would be needed; and
- Standards that are seen as needing to be amended for implementation.

Member States would be invited to put in place an implementation plan for all sub-sectors of general government. For example, the core set of EPSAS should be applicable to all public entities and, taking into account materiality, should cover the major part of government-sector expenditure in the Member States.

6. A way forward

The Commission considers that, before deciding on the actual project of creating EPSAS and implementing it in the Member States, some further preparatory steps are necessary. There remain several important questions concerning issues outside the scope of this report, such as establishing the EPSAS framework and specifying a first set of core EPSAS standards, as well as the planning of the implementation. The Commission would need moreover to describe the necessary milestones for the future project, and take into account impact assessment considerations. A decision can be made only on the basis of an ex-ante review of pros and cons, and likely costs and benefits.

Once such a decision has been taken: based on the experience of countries which have implemented accruals-based public-sector accounting systems over recent years, the process of implementation would be sequential. It should be determined by carefully considering the starting position of each Member State as regards, for example, the state of development of the existing national accounting standards and the availability of balance sheet data. In some Member States, it might be appropriate to begin implementation at national level and move on to regional and local levels later. It is also to be expected that the extent of implementation for smaller entities would be limited, or at least that the more important entities would be prioritised, taking into account their materiality.

The process could take place in three stages:

(1) A preparatory stage to gather more information and points of view, and to develop a roadmap. This stage would begin in 2013 and would involve further consultations, a high-level conference and the preparation of further more detailed proposals;

(2) A stage to develop and put in place the practical arrangements, addressing issues such as finance, governance, possible synergies and the concerns of smaller government entities. This stage should culminate in the publication of a proposal for a Framework Regulation. The Framework Regulation would require the application

of the accruals principle and set out plans to develop further specific accounting standards over time; and

(3) The implementation stage: the process of implementation should be gradual, and allow more time where a Member State's existing accounting standards differ greatly from EPSAS, although it could be envisaged that implementation should be achieved in all Member States in the medium term.

The proposed strategy consists of a balanced approach that builds on existing achievements and ensures that the European Statistical System can operate independently but still work closely with its main data providers and institutional users. It is also important to underline that EPSAS should not lead to further bureaucratic requirements, increased administrative burdens on respondents or delays in statistical production.

The Commission will further develop the strategy outlined in this report, taking into account resource constraints, in line with its responsibilities under the Treaties.

Given the different issues at stake, it is important to make swift progress while consulting key stakeholders, including where legislative initiatives are needed. The next steps, to be started in 2013, will take into account impact considerations and include a road map setting out in more detail the steps to be taken, including legislative initiatives, to achieve harmonised public-sector accounting standards across the Union.