



IPSAS, Another International Accounting Standard: Japan's Challenges in the Public Sector Accounting System (Summary)

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IPSAS, another international accounting standard

The International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) have been rapidly disseminated in recent years. As of August 2015, a total of 112 Japanese companies, approximately 21% of the market caps of the Tokyo Stock Exchange listed companies, either have adopted or are expected to adopt the IFRS.

On the other hand, the International Public Sector Accounting Standards (IPSAS) seem to have been less recognized until recently. In April 2014, the Study Group on Future Municipal Accounting Promotion under the Ministry of Internal Affairs and Communications issued a report presenting uniform standards for preparation of financial statements and requesting all local governments to adopt them by FY2017. These standards are developed with reference to the IPSAS.

What is the IPSAS?

The IPSAS, issued by the International Public Sector Accounting Standards Board (IPSASB), are standards recommended for governments and public sector organizations worldwide. They are designed to be uniformly applicable to all public sector entities such as national and municipal governments and international organizations except government business entities financially independent from governments. International organizations such as the OECD and UN agencies, as well as the Swiss and New Zealand governments, have adopted the IPSAS.

Increasing attention to the IPSAS

Recently, the IPSAS have been gaining increasing attention in Japan, which raises the question of why they hadn't attracted more interest previously.

1. When public sector accrual accounting systems were established in Japan approximately 15 years ago, the IPSAS were still in the development stage and considered unadoptable.
2. Largely based on the IFRS, the IPSAS are easy to understand and apply in countries where the

IFRS concepts are pervasive. In Japan, the IFRS had not been widely adopted until recently.

3. Few countries had actually adopted the IPSAS.

In recent years, these three factors have changed notably, with significant progress in standards setting by the IPSASB, dissemination of the IFRS in Japan, and adoption of the IPSAS by a number of other countries. In particular, public sector accounting standards setters in countries that lead in public sector accounting systems, such as the US, the UK, Canada, Australia and New Zealand, have been enhancing cooperation with the IPSASB. In the EU, the idea of introducing harmonized European Public Sector Accounting Standards (EPSAS) has emerged, triggered by financial problems in Greece and other countries.

Public sector accounting standards in Japan

Public sector accounting systems in Japan can be roughly categorized into (1) almost complete accrual systems for government agencies such as incorporated administrative agencies and (2) cash-basis systems supplemented by accrual financial statements for national and municipal governments. In the national and municipal government accounting systems, the accrual financial statements are not formal financial statements but supplements to cash-basis budgets and settlements. Primary balances related to fiscal reconstructions are also reckoned from cash-basis budgets and settlements.

Necessity of an independent public sector accounting standards setter

In our country, various organizations have their own accounting standards, each of which lacks consistency with others. I find this situation problematic, as it makes accounting information difficult to understand for citizens and other users, and also because it erects hurdles to educating those who prepare and audit financial statements.

To solve these problems, it is important to establish a strong, independent entity with the mandate of ensuring compatible or consistent public sector accounting standards in our country. Just as the Accounting Standards Board of Japan (ASBJ) has been playing an important role in the IASB's standards setting process, Japan needs such an entity to effectively participate in the IPSASB standards setting process.

Consistency with statistics standards

To ensure efficiency and accuracy in the preparation of our governments' financial statements and fiscal statistics, we need a coordinated system based on the same book data and organized methods. It is unfortunate that discussion of public sector accounting in Japan currently lacks perspective to ensure consistency with statistic standards.

Future challenges in financial discussion

We see articles that emphasize the critical condition of our country's fiscal status and those which downplay it. What I think critical is the lack of consensus on information that is basic to the

discussion and its interpretation, which has been a major cause of the disagreement. The underlying problem is the lack of a system to ensure that the information used in the discussion is accurate, consistent and unbiased. We must establish such a system, namely a public sector accounting system, before the real crisis arrives.

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Tadashi Sekikawa is a Certified Public Accountant in Japan. He had been working at Deloitte Touche Tohmatsu, both in Japan and US for nearly 30 years. At Deloitte, he was engaged in auditing and advisory practices both in private and public sectors, including advisory services to governments of emerging economies. He quitte



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Mr. Sekikawa was a Board Member of the International Public Sector Accounting Standards Board (IPSASB) from 2006 to 2011 and an Executive Council Member of the Japanese Institute of Certified Public Accountants (JICPA) from 2010 to 2013. He was also involved in many volunteer positions at the Japanese Government.

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