



**The Japanese Institute of  
Certified Public Accountants**

4-4-1 Kudan-Minami, Chiyoda-ku, Tokyo 102-8264, Japan  
Phone: +81-3-3515-1129 Fax: +81-3-3515-1167  
Email: [hieirikaikai@jicpa.or.jp](mailto:hieirikaikai@jicpa.or.jp)

June 12, 2018

Mr. John Stanford  
Technical Director  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario, Canada M5V 3H2

**Comments on Consultation Document “Strategy and Work Plan 2019-2023”**

Dear Mr. Stanford,

The Japanese Institute of Certified Public Accountants (hereafter the “JICPA”) highly respects the International Public Sector Accounting Standards Board (hereafter the “IPSASB”) for its continuous effort to serve the public interest. We are also pleased to comment on the Consultation Document “Strategy and Work Plan 2019-2023” (hereafter the “Plan”).

The JICPA agrees with the strategic objective and strategic themes proposed by the IPSASB. For the strategic purposes, the JICPA recommends that the IPSASB consider the areas of Public Financial Management (hereafter the “PFM”) on which it should focus (in addition to the contribution to the financial reporting improvement, it should consider contributing to the enhanced budget management or asset management).

We agree with Theme A (Setting standards on public-sector-specific issues) for the projects the IPSASB proposes to add to its agenda. Of the projects related to Theme B (Maintaining IFRS convergence), we believe that for IPSAS 18 *Segment Reporting* (hereafter the “IPSAS 18”), the IPSASB should consider the facts and circumstances specific to the public sector, rather than simply addressing IPSAS 18 in the convergence projects. We also recommend that the IPSASB amend IPSAS 20 *Related Party Disclosures* (hereafter the “IPSAS 20”) as an additional project.

In the meantime, we recommend that the IPSASB should prioritize the discussion of

the issue *Defining Public Sector Key Financial Performance Indicators* in Theme C.

For details, please see the following.

**Specific Matter for Comment 1 :**

Do you agree with the IPSASB's proposed Strategic Objective 2019–2023? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain your reasoning and your proposed alternative.

Comment:

We agree with it.

However, please note the following.

As the description of strategic objective is provided in a simple manner, we believe that it would be necessary to clarify the relationship between the purpose of the financial reporting by a public sector entity as specified in the conceptual framework for the general-purpose financial reporting (for the purposes of decision-making and accountability) and the PFM in the definition of the PFM (p.5). Specifically, the second paragraph and the third paragraph of p.5 address decision-making and accountability, respectively. In this respect, the IPSASB should include a link reference to the statement that the high-quality standards developed by the IPSASB are critical for providing useful information for the two purposes at the beginning of the second paragraph, followed by individual descriptions of the two purposes.

Currently, there is little evidence explicitly indicating the cause-and-effect relationship between the increase in accountability by the adoption of accrual basis accounting and the strengthening of the PFM. Rather, we believe we could develop skills necessary for the PFM through the various tasks required during the process of adopting the accrual basis accounting (for example, preparation and maintenance of asset register books). In relation to Theme D and Theme E, we propose the IPSASB that it should develop a road map for the adoption of the accrual basis accounting, as well as lists of skills required for management and other employees.

We consider that the PFM consists of a wide variety of functions related to public finances, including budgeting, spending management, financial reporting and external audit. Yet given the constraints on its resources, we recommend that the IPSASB should clarify its position on the areas of the PFM on which it should direct its strategic focus (e.g., focus on contribution to the financial reporting and implementing approaches to the areas of budget compilation or asset management), after fully analyzing how the adoption of IPSASs or accrual basis accounting would contribute to the various functions of the PFM.

**Specific Matter for Comment 2 :**

Do you agree with the IPSASB's five proposed Strategic Themes for the 2019–2023 period? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain your reasoning, including any proposed alternatives.

Comment:

We agree with the IPSASB's five proposed Strategic Themes.

We also believe that the IPSASB should clearly describe the collaboration with other related organization in the general note of Theme E (p.19), in order to carry out researches to collect evidence that the adoption of IPSASs would contribute to enhance PFM. We note that the strategic objective highlights the strengthening of the PFM. If the IPSASB clearly demonstrates that the adoption of IPSASs would strengthen the PFM and bring about some benefits to public sector entities, jurisdictions which have not adopted the IPSASs would be more persuaded. For example, this could be achieved by indicating that any accrual basis information resulting from the IPSASs would help better depict the financial position (conditions of assets and liabilities at a certain point in time) and financial performance (the changes in net assets comprising the difference between the values of assets and liabilities).

**Specific Matter for Comment 3 :**

Do you agree with the criteria the IPSASB has used in deciding the proposed issues to add to its Work Plan 2019–2023? If you agree please provide any additional reasoning not already discussed in the document. If you do not agree please explain why, including any proposed alternatives.

Comment:

We are afraid that the second criterion in the criteria for project prioritization, "Consequences" is so simple that it would be ambiguous to readers and give rise to certain misunderstanding in translating it. Would it work to change the title to "Effect on financial reporting purposes" while keeping the body text unchanged?

**Specific Matter for Comment 4 :**

Do you agree with the projects that the IPSASB proposes to prioritize for addition to the Work Plan 2019–2023 on Theme A: Setting standards on public sector specific issues (Natural Resources, Discount Rates, Differential Reporting and Conceptual Framework limited-scope Review)? If not please explain your reasoning, and any proposed alternatives.

Comment:

We agree with them.

### **Specific Matter for Comment 5 :**

Do you agree with the project that the IPSASB proposes to prioritize for addition to the Work Plan 2019–2023 on Theme B: Maintaining IFRS convergence (IPSAS 18, *Segment Reporting*)? If not please explain your reasoning and any proposed alternatives.

Comment:

We agree with the amendment to IPSAS 18.

However, we do not agree with addressing the amendment to IPSAS 18 simply as a part of the convergence projects with IFRSs.

In addition to IFRS convergence, the IPSASB is required to identify what segment would be for the purpose of internal management in a public sector, which will help the PFM reform. Also, the IPSASB should consider drawing upon the segment reporting as a basis for the guidance on cost accounting in Theme C.

In this respect, Japan has developed individual accounting standards specific to each category of public sector entities (e.g., national government, local governments, or government agencies such as independent administrative agencies). As such, many entities have presented cost information by segment based on policies or business categories. However, a lack of consistency in the principles or methodologies to prepare segment information under the accounting standards has impeded the comparability with other categories of entities. We therefore recommend that the IPSASB should develop IPSASs specific to segment reporting, taking into account the facts and circumstances specific to the public sector, so that entities could use them for the purpose of performing accountability or resource providers could use them for their decision making.

In addition, we are of the view that the IPSASB should consider implementing the amendment to IPSAS 20. Since we estimate the volume of the project would be smaller than other projects specific to the public sector, we recommend that the IPSASB should simply include it in the purely incremental candidates for the agenda.

Related party disclosures are very important for preventing any fraud in management. IPSAS 20 was issued in 2002, and there have been no significant amendments to it since. Given its age, the standard cannot be considered to fully address recently occurring issues. The IPSASB should reassess whether it should incorporate the amendment to IAS 24 *Related Party Disclosures* (hereafter the “IAS 24”) into its relevant IPSAS standard or whether it should continue to maintain the specific requirements of IPSAS 20 as they are. Current IAS 24 provides for the requirements related to government-related entities. We believe, as a matter of course, that the IPSASB should have prescribed these requirements in relative IPSASs. The IPSASB should take this opportunity to clarify demarcation between the IPSASB and the IASB.

### **Specific Matter for Comment 6 :**

Are there any projects in Appendix A that you believe should be added to the Work Plan 2019–2023 in place of a currently proposed project? If you believe that any Appendix A projects should be added, please explain your views on why the project should be included, which proposed project should not then be started and your reasoning.

Comment:

We recommend that *Defining Public Sector Key Financial Performance Indicator* included in Theme C of Appendix A projects be added to its agenda. Among the proposed projects, none related to Theme C is identified and as such under Themes A to E, there is no specific new work plan in the context of Theme C.

While Themes A and B relate to the preparation of financial reporting, we acknowledge that Theme C would be provided for preparers and make consideration to meet users' broader financial reporting needs.

In order to increase the adoption of IPSASs, we acknowledge the importance to develop high quality financial reporting standards. However, we also think the IPSASB should explain the merits for adoption of IPSASs, especially focusing on how to utilize accrual information. We believe this issue is related to Themes D and E. We think that this could greatly contribute to the achievement of the strategic objective of “enhancing the benefits arising from the greater awareness of, and adoption of IPSASs” by taking advantage of output derived from projects related to Theme C in the activities associated with Themes D and E.

We think that *Defining Public Sector Key Financial Performance Indicator* would be consistent with the prioritization criteria. The issues for which key financial performance indicators in the public sector have not been identified could be assessed as follows:

(1) Prevalence

They relate to situations where what constitutes key financial performance indicators has not been clearly identified. They might be regarded as certain sources of reducing the meaning of preparing general-purpose financial statements. They are also factors which discourage public sector entities from transitioning to IPSASs justifying a vast amount of transition costs.

(2) Consequences

Since the key financial performance indicators has not been identified, it is unclear whether the various information currently required by IPSASs is necessary and requisite in determining the indicators. Thus, the usefulness of such information may have been in doubt.

(3) Urgency

If the usefulness and importance of the indicators associated with IPSAS financial reporting are acknowledged, the benefits from adopting IPSASs could be strongly highlighted. This would

directly contribute to the prevalence and advocacy of IPSASs. Hence, the urgency is high.

(4) Technical and Resource Considerations

We believe that the IPSASB could make an answer to the issue of the needs and importance of various indicators by considering the discussions to date in addition to the activities associated with Themes D and E.

**Specific Matter for Comment 7 :**

The IPSASB views building relationships with those working in the PFM space and engaging in their work as critical to furthering the use of IPSAS in PFM reform projects. Therefore, under Themes D and E, the IPSASB will actively monitor the work of others and look for appropriate opportunities to engage and support that work.

- Do you agree with the IPSASB's proposed approach under these Themes? If so, are you aware of any ongoing initiatives which the IPSASB should monitor and look to engage with (please provide details).
- If you do not agree, please explain your reasoning along with any proposed alternatives, and how those might be resourced.

Comment:

We agree with the IPSASB's proposed approach.

Public Expenditure and Financial Accountability (<http://pefa.org>), an organization promoting PFM, is currently developing a PEFA Framework for assessing the conditions of the adoption of PFM. This framework contains several indicators for the assessment. Currently, IPSASs are only considered as "Annual financial reports" indicator. We encourage the IPSASB to contribute to the PFM reform by monitoring and engaged in the activities of PEFA.

Yours sincerely,

Shuichiro Akiyama

Executive Board Member - Public Sector Accounting and Audit Practice

The Japanese Institute of Certified Public Accountants