

# OUTLINE OF AUDIT RESULTS - FY2004 AUDIT REPORT -

## CHAPTER I OUTLINE OF AUDIT ACTIVITIES

### Section 1. Audit Policies

The Board of Audit established its Basic Policy on Audit Activities for the year 2005 as follows:

**Basic Policy on Audit Activities for 2005** (As established on September 16, 2004)

#### 1. Mission of the Board of Audit

The Board of Audit has a statutory mission as a constitutional organization independent of the Cabinet. That is, the Board shall audit the final accounts of revenues and expenditures of the State and also such accounts as are provided for by the Board of Audit Law. Through constantly conducting audits, the Board shall monitor the public accounts to secure their adequacy and to rectify defects from the viewpoint of financial control. The Board shall certify the final accounts of revenues and expenditures of the State and shall submit the results of the audit in the form of an annual Audit Report to the Diet through the Cabinet.

#### 2. Social and Economic Movements and the Situation Surrounding the Board of Audit

##### (1) Japan's Social and Economic Movements and Current Fiscal Position

In recent years, Japan's social and economic situation has been changing drastically with the trend towards the rapidly declining birthrate and aging population, economic globalization, the spread of innovative information technology and environmental problems. The administration systems that have supported and contributed to Japan's social and economic development need to cope with these changes.

As for the fiscal position of the State government, the outstanding balance of government bonds is steadily increasing due to their continual issuance and is estimated to reach about 482 trillion yen at the end of FY 2004. The expenditure required for redemption of the national debt and the payment of the interest account total is 17.5 trillion yen in the budget for FY 2004, and comprise about one-fifth of the General Account expenditures, which imposes on the government and the general public a major challenge with regard to returning to a sound fiscal position, in other words, a reduction of the national debt.

Meanwhile, the Government is promoting several reforms in the fields of the economy, finance, administration systems and so on.

##### (2) Situation surrounding the Board of Audit

The Law Concerning the Evaluation of Policies by Administrative Organs came into force in April 2002 and the national administrative organs began to carry out the evaluation of policies. Work performances of independent administrative agencies are evaluated based on the Law Concerning Independent Administrative Agencies. In recent years, various considerations to clarify national financial condition are proceeding, for example, the Fiscal System Council prepared corporate-accounting-based financial documents. Thus, greater

importance is placed on the administrative organs' accountability.

Concerning the administrative organs' accountability, the report by the Administrative Reform Committee, which led to the introduction of the above-mentioned evaluation, stated that an external evaluation in addition to an internal evaluation is indispensable, and expressed expectations with regard to the conduct of such evaluations by the Board of Audit.

On the other hand, the results of the audit by the Board of Audit have been used for the Diet's examination of the account settlement. In June 2003, the House of Councilors Committee on the Audit requested the Cabinet to submit the account settlement to the Diet earlier for the purpose of having it reflected in the budget and to take necessary measures to strengthen auditing function of the Board of Audit. Responding to this, the Board of Audit decided to submit the results of its audit earlier from FY2004, thus helping the Diet to examine the settlement of accounts earlier.

These changes took place because the Board of Audit had attracted greater importance and attention from the public for its expanded roles and functions.

### **3. Basic Policy on Audit Activities**

The Board has been trying to conduct audits that are oriented towards performance evaluation in order to respond adequately to public expectations, taking into account the changing social and economic situation at all times. In short, the Board pays constant attention to the general public's interests as well as deliberations in the Diet and makes every effort to ensure the strict and fair discharge of its duties.

A. In response to Japan's social and economic trends and its current fiscal position, the Board has decided to focus its audit activities on the following areas of public administration.

- ( ) Social security
- ( ) Public works
- ( ) Education, science and technology
- ( ) Defense
- ( ) Agriculture, forestry and fisheries
- ( ) Economic cooperation
- ( ) Small and medium-sized enterprises
- ( ) Environmental protection
- ( ) Information technology (IT)

B. The Board will conduct audits not only to identify and disclose cases of inappropriate or improper acts, but also to evaluate the performance of programs and projects. Thus, the Board will conduct audits with a focus on the effectiveness of the current systems of administration, if necessary.

The Board has been conducting audits mainly from the following viewpoints:

- (a) Viewpoint of accuracy to review whether the final accounts of the auditees represent the results of their budget execution
- (b) Viewpoint of regularity to review whether the accounting of the auditees has been properly executed in accordance with the budget allocation, laws and ordinances
- (c) Viewpoint of economy and efficiency to review whether the auditees' implementation of their programs and budgets could have been done with less expenditure, or whether they

could have provided more outputs with the same expenditures

- (d) Viewpoint of effectiveness to review whether the results on the auditee agencies' implementation of their programs and budgets have obtained the originally intended goals and whether they are effective

The Board continues to conduct audits from the viewpoints of accuracy and regularity, focusing on the basic auditees' accounting to deal with the recent misconducts/improprieties by some ministries. Moreover, in the light of the serious economic and financial conditions in recent years, the Board will place greater emphasis on the viewpoints of economy, efficiency and effectiveness. Especially from the viewpoint of effectiveness, the Board is ready to review the effectiveness of the implementation of programs and budgets. If there is any problem, the Board will scrutinize and analyze its causes thoroughly and investigate how to find the appropriate remedies.

When the Board conducts audits, the Board pays attention to the auditees' internal checks and audit and, if necessary, examines whether their internal checks and audit are fully functional and effective.

The Board will make efforts to improve the audit of measures carried out by two or more government agencies and matters common to or related to two or more government agencies. In addition, the Board will deal in a timely and appropriate manner with the Diet's requests for audits and matters of social concern. If necessary, the Board will display flexibility in dealing with them.

In addition, to contribute to the improvement of the administration's transparency, accountability and operation, the Board will analyze and evaluate the auditees' financial statements including a national one and more closely investigate the financial conditions in special accounts, independent administrative agencies, special public corporations, and so on. The Board will also carefully audit the auditees' own policy evaluation.

Moreover, the Board will carry out follow-up promptly and appropriately so that the results of audits can be accurately reflected in the compilation and execution of the budget and the management of projects and can be more effective.

- C. The Board will develop new methodologies to deal with more complicated society and economy and corresponding changes in administrative activities.

The audit of the Board covers every aspect of government activities, including the accounting and other related areas, which require the research and development of diversified auditing methodologies and techniques, the development of human resources to be capable of auditing any specialized area, and the utilization of computers and other devices for audit.

#### **4. Designing Appropriate Audit Plan**

It is very important to design and carry out an appropriate annual audit plan that aims to effectively and efficiently accomplish our missions, based on the above mentioned Basic Policy on Audit Activities.

When designing an audit plan, it is necessary to determine what to place importance on during audit, taking into full consideration the auditees, the size and content of the measures, affairs and projects, the conditions for internal checks and audit, and the results of the previous audit.

## Section 2. Audit Implementation

### 【Coverage】

The Board of Audit shall conduct audits of all the State accounts such as revenues and expenditures of the State General Account and Special Accounts, cash and goods owned by the State, as well as State properties. It also audits debts and credits of the State.

The Board of Audit shall also audit the following accounts.

The accounts of juridical persons more than half of whose capital is invested by the State

The accounts to be subject to audit by the Board of Audit in accordance with a provision of any law

Audited for the year 2005 (auditing period: October 2004 through September 2005) were, in addition to the State accounts, accounts of 232 juridical persons including government financial institutions, public corporations, independent administrative agencies and account of the Japan Broadcasting Corporation(NHK).

In addition, the Board of Audit may audit the following accounts if it considers necessary.

The accounts of bodies a part of whose capital is invested by the State

The accounts of bodies as are invested by the bodies which themselves are invested by the State

The accounts of such bodies, i.e., prefectures, municipalities, various cooperatives and school corporations as are given subsidies or other financial assistance by the State

The Board of Audit audited the accounts of 2 juridical persons as categorized in , 15 juridical persons in , and 5,403 bodies in for the covered period.

### 【In-office documentary audit and field audit】

In-office documentary audit and field audit are the two main methods of audit.

In-office documentary audit is the examination of the statements with the vouchers and other supporting documents, which are submitted from the auditees in accordance with the Regulations for the Verification of Accounts enacted by the Board. While statements show the numeric results of accounting transactions, the vouchers and other supporting documents including, but not limited to, contract documents, invoices and receipts help verify that the statement is accurate, legal and reasonable.

On the other hand, field audit is conducted by dispatching auditors to the offices of auditees to check relevant account books and other necessary documents for reviewing the real implementation of programs and to ask relevant officers for the explanation on the programs. Actual results of the audit conducted by using above-mentioned two methods in the year 2005 are as follows.

(a) In-office documentary audit covered more than 180 thousand statements and 53,160

thousand sheets of vouchers and supporting documents for the fiscal 2004.

- (b) Field audit covered more than 2,700 accounting units among the 33,400 auditees and also covered the above 5,403 bodies granted subsidies or other financial assistance by the State. The Board spent 42,000 person-days for the field audit.

Types of auditee offices	Number of offices to be audited (A)	Number of offices actually audited (B)	Audit ratio (%) (B/A)
Head offices of ministries and agencies	4,438	1,963	44.2
Prefectural offices and branch offices	8,161	706	8.6
(Subtotal)	12,599	2,669	21.1
Railway stations and post offices	20,874	97	0.4
(Total)	33,473	2,766	8.2

Based on the results of audit, the Board of Audit sends inquiry letters on audit findings to receive the answers and official views of the auditees concerned. About 700 inquiry letters were sent relating to the audit conducted in this period.