

3. Outlines of Special Reports to the Diet and the Cabinet and Special Reports on audit requested by the Diet

(1) Special Report to the Diet and the Cabinet

The following six matters (23 cases) were reported to the Diet and the Cabinet under the provision of Article 30-2 of the Board of Audit Act.

- A. Provision of meal and other allowances in cash to independent administrative agencies
 - (a) The Board demanded necessary measures to abolish the provision of meal and other allowances to officials in cash. (3 cases)
 - (b) The independent administrative agencies took remedial measures to abolish the provision of meal and other allowances to their officials in cash in response to the Board's inquiries. (5 cases)
- B. The Board demanded that the Minister of Economy, Trade and Industry take necessary measures for effectively using the special funds for financial stabilization of small and midsize companies that are unlikely to be used, such as making the funds available for use in compensation for losses related to emergency guarantees.
- C. The Ministry of Health, Labour and Welfare took remedial measures to accurately adjust the number of general insured persons for retroactive application to retired insured persons in order to properly calculate the amount of financial adjustment subsidies for national health insurance, the Board advised.
- D. The Board demanded that the Commissioner of the National Tax Agency reduce interest on refund by such measures as decreasing the number of days necessary for payment affairs through discrimination between returns for large refunds and other returns for refunds.
- E. The Board presented its opinion to the heads of 11 government offices, including the Cabinet Secretariat that they should take measures concerning e-application systems that did not show full effects in comparison with the expenses for the establishment and operation because they were not used much. (11 cases)
- F. The Board demanded that the Director-General of the National Livestock Breeding Center should increase revenues by receiving consideration according to the amount of revenues from the sale of frozen semen produced from the bulls and selecting borrowers by competitive bidding regarding lending of bulls for semen collection.

(2) Special Report on audit requested by the Diet

In the following five cases, audit was conducted upon request from the Diet under the provision of Article 105 of the Diet Act and audit results were reported under the provision of Article 30-3 of the Board of Audit Act.

A. Execution of budget for equipment and services expenses at the Regional Development Bureaus of the Ministry of Land, Infrastructure, Transport and Tourism

Upon request from the House of Councillors, the Board conducted field audits concerning the execution of budget for equipment and services expenses at the Regional Development Bureaus of the Ministry of Land, Infrastructure, Transport and Tourism in terms of the following aspects: 1) contract methods and procedures; 2) contract contents and prices; 3) the situations of other parties; and 4) classification between the general account and special accounts and the execution of budget.

As a result of the audits, the Board found the following: 1) Although the ratio of contracts by general competitive bidding and free contracts based on planning ability has been increasing, cases where only one bidder participated in bidding carried out under both methods accounted for more than 40%; 2) Some of the office supplies whose values were small and which were purchased separately by free contract should be purchased collectively through general competitive bidding; 3) The average number of bidders was smaller and the average ratio of cases where bidding ended in success was higher at the Regional Development Bureaus whose contracts on vehicle management service were concluded through bid rigging (excluding the contracts related to seaports and airports) and the Hokkaido Regional Development Bureau than at other organizations; and 4) In some cases, it could not be confirmed that equipment and services expenses to be used for purposes directly related to construction were used only for purposes actually necessary for construction. In addition, the Ministry of Health, Labour and Welfare sometimes unreasonably classified Prefectural Labour Bureaus' overhead expenses. For example, some overhead expenses were paid only from the Labour insurance special account.

Therefore, the Ministry of Land, Infrastructure, Transport and Tourism and the Ministry of Health, Labour and Welfare should endeavor to use equipment and services expenses economically and efficiently. The Ministry of Land, Infrastructure, Transport and Tourism should make efforts to review contract methods and qualifications for participation in bidding, to replace individual small-amount free contracts with collective contracts by general competitive bidding, to recover losses earlier through research on the amount of damage caused by bid rigging on the vehicle management service and to clarify the relation between payment of equipment and services expenses and construction. The Ministry of Health, Labour and Welfare should consider which of the accounts – the general account or the Labour insurance special account – should be used for Prefectural Labour Bureaus' overhead expenses.

The Board will continue to audit the execution of budget from various aspects.

B. Independent administrative agencies' services, finances, bid invitation and contracts

Upon request from the House of Councillors, in November 2008 the Board reported audit findings concerning independent administrative agencies' services, finances, bid invitation, and contracts. In addition, mainly to inspect the reexamination of free contract by each of the

independent administrative agencies that the Board decided to audit as described in the report, the Board also conducted field audits from the aspects of whether contract affairs were carried out properly and whether fairness, competitiveness, and transparency were ensured.

According to the audit results, regarding the reexamination of free contracts by each of the independent administrative agencies, although many agencies adopted more competitive contract methods than before, the effect of competition was not fully displayed. There were also the following findings: 1) Although the ratio of free contracts was decreasing, the ratio of competitive contracts for which only one bidder made a bid was increasing; 2) Regarding the implementation of the procedures for general competitive bidding, planning competition, and public offering, some independent administrative agencies should consider ensuring competitiveness, fairness, and transparency; and 3) Generally, the number of free contracts and the paid amounts were higher in the case of public-interest corporations with reemployed persons than in the case of those with no reemployed persons.

Therefore, each of the independent administrative agencies should reexamine contracts to make them appropriate according to the free contract reexamination plan, paying full attention to ensuring competitiveness and other aspects, and should do the following: 1) replacing free contracts with competitive contracts unless the situation strongly requires free contracts; 2) endeavoring to ensure competitiveness when carrying out general competitive bidding, planning competition, or public offering; and 3) paying special attention to ensuring transparency when concluding a free contract with a corporation with reemployed persons.

The Board will continue to audit each independent administrative agency's services, finances, bid invitation, and contracts from various aspects.

C. Pension record issues

Upon request from the House of Councillors, the Board conducted field audits concerning the following: 1) the history and current situation of the pension record issues; 2) the status of measures to solve the pension record issues, such as contents of contracts, estimation of contract prices, performance of contracts and confirmation of performance; 3) the status of establishment of systems for prevention of recurrence of pension record issues.

When various measures are taken to solve the pension record issues, regarding 1), it is necessary to consider measures to complete integration early concerning, among about 50.95 million records in total, about 11.62 million records to be clarified and about 14.66 million records kept in microfilm, excluding 350,000 identified records. Periodical review is necessary for collation between the pension records kept in online systems and about 850 million records kept as the list of persons joining the employees' pension insurance scheme and others. In addition, the staff and the method for the collation should be reviewed from time to time. The pension records that are not integrated with the basic pension numbers identified through pension record consultation should be rectified through integration or the like. If retroactive correction of pension records is

inappropriate, measures for relief of victims should be taken promptly. Moreover, it is necessary to consider measures for prevention of recurrence of problems, such as devising a method that facilitates insured persons' confirmation of their pension records.

Regarding 2), it is necessary to execute the budget properly by promoting appropriate procurement through review of the necessity and appropriateness of operations, estimating contract prices properly and carrying out acts requiring disbursements properly through appropriate confirmation of the status of performance of operations.

Regarding 3), the Social Insurance Agency has stated that the Agency will take measures for supervising and improving the management of operations and the internal control effectively. By evaluating such measures appropriately and identifying all problems to be solved, the Agency should prevent pension record issues from occurring again.

The Board will continue audits from various aspects concerning whether the Social Insurance Agency carries out the measures appropriately to regain the people's trust in the pension records.

D. Procurement of defense equipment through importation by trading companies

Upon request from the House of Councillors, the Board conducted field audits concerning the import of defense equipment through trading companies (hereinafter referred to as the "general import") in terms of the following: 1) the general situation of procurement of defense equipment, including the General Import; 2) contract methods for procurement by the general import; 3) cases of excessive demand for payment concerning the General Import and the Ministry of Defense's measures against this.

The audit findings were as follows: 1) The cost of procuring defense equipment was about two trillion yen every year from FY2005 to FY2008 and about 5% to 7% of the cost was the cost of the General Import; 2) Although general competitive bidding or public offering should be applied to contracts in principle, many contracts were concluded through free contract due to unsuccessful competitive bidding or free contract after public offering; 3) Because a case of excessive demand for payment concerning the general import was discovered, the Ministry of Defense confirmed the authenticity of contracts, sending copies of written estimates to the foreign manufacturing company; the Board asked the foreign manufacturing company about the authenticity of some of the contracts about which no answer was returned during the Ministry of Defense's investigation, and received the company's answer that three contracts were not authentic.

Therefore, when the Ministry of Defense procures defense equipment through the General Import in the future, it should pay attention to the expansion of competitiveness and measures against excessive demand for payment.

The Board will continue audits from various aspects concerning whether the Ministry of Defense appropriately procure defense equipment through the General Import.

E. Financial statuses of public-interest corporations under the jurisdiction of each government office

Upon request from the House of Councillors, the Board conducted field audits concerning the financial statuses (especially, internal reserves) of public-interest corporations under the jurisdiction of government ministries/agencies and their researches entrusted by the central government.

The audit findings concerning their financial statuses were as follows: 1) Revenue from the government occupied more than two-thirds of the annual revenues of about 10% of the public-interest corporations; 2) The amount of internal reserves was higher in the case of the corporations with the revenue from the government than in the case of the other corporations, and about one-third of the public-interest corporations had an internal reserve ratio of more than 30%; 3) The corporations that employed former officials of ministries/agencies received a higher amount of revenue than the other corporations; 4) Some of the funds created with state subsidies were likely to cause losses at the time of return of subsidies, and only a few corporations set quantitative goals and evaluated the degree of achievement of them. The audit findings concerning their researches were as follows: 5) The ratio of free contracts was high, and examination about competitiveness was necessary for some contracts; 6) The estimated unit price of personnel cost widely differed among the corporations; 7) the procedure for approval of re-entrustment was not carried out regarding some contracts, and separate accounting was not carried out regarding some contracts by rough estimate; 8) Results were not fully published on the Internet.

Therefore, each ministry/agency should make efforts to carry out the following measures: 1) promoting disclosure that clarifies the central government's expenditure to public-interest corporations; 2) providing guidance to public-interest corporations concerning the optimization of the size of internal reserves; 3) ensuring the transparency of expenditure to public-interest corporations that employed former officials of ministries/agencies; 4) ensuring the economy and efficiency of the central government's expenditure to public-interest corporations, paying attention to the provision of guidance to public-interest corporations about management in accordance with the purpose of the creation of funds as well as the establishment of quantitative goals and the evaluation of the degree of achievement of those goals about fund projects. In addition, the ministries/agencies that have entrusted researches to public-interest corporations should make efforts to carry out the following measures: 5) ensuring substantial competitiveness of contracts; 6) improving the rationality of estimation of contract prices; 7) promoting the thorough management of contracts and the appropriate performance of contracts by rough estimate; 8) ensuring the economy and competitiveness of contracts and utilizing project results by paying attention to the promotion of publication of results on the Internet.

The Board will continue to conduct audits from various aspects.

(3) Special Report on Audit Implementation

Four cases are reported herein as Special Reports on Audit Implementation.

A. Financial statuses of financial institutions, including banks that have still not completed repayment of public funds, and the status of implementation of measures for stabilization of financial systems in the recent financial situation

Taking into consideration changes in the recent financial situation after the Lehman Shock in September 2008, The Board conducted field audits at the Financial Services Agency, the Deposit Insurance Corporation and others concerning the financial statuses of banks that had not yet repaid public funds and the implementation status of measures for promoting financial institutions' financial intermediation function.

Regarding the financial statuses as of March 2009, banks that ~~did~~ had not yet repay repaid public funds were affected by the sluggish stock market like most of the banks all over Japan. Of the 12 financial institutions (as of the end of March 2009) except those receiving capital injection under the amended Act on Special Measures for Strengthening Financial Functions, 6 financial institutions incurred a current loss, which influenced the accumulation of reserves usable as sources for repayment of public funds. When the Financial Services Agency reviews management reconstruction plans, the Agency should take appropriate measures, such as requesting the banks not yet completing repayment of public funds to reinforce the risk management of the stocks they have. Moreover, the Agency should continue to supervise the banks appropriately so that they can make the management sound early through steady implementation of their management reconstruction plans and completely repay public funds.

The central government has carried out measures such as amendment to the Act on Special Measures for Strengthening Financial Functions so that the financial institutions can perform their financial intermediation function. Under the Act, capital injection totaling 121 billion yen was given to 3 financial institutions in March 2009 and capital injection totaling 115 billion yen was given to 4 financial institutions in September 2009. The Financial Services Agency should take measures for promoting the financial institutions' smooth performance of their financial intermediation function, such as appropriately following up the implementation status of their management strengthening plans, continuing to request the financial institutions to consider utilizing capital injection measures and proceeding with the creation of environments where the financial institutions can apply for capital injection timely and appropriately.

Taking into consideration changes in the situation of the financial institutions in the future, the Board will continue to audit the implementation status of the financial system stabilization measures taken by the central government since the Lehman Shock.

B. The status of prefectures' accounting of the administrative costs of state-subsidized projects

In 2008, the Board conducted field audits concerning administrative expenses for state-subsidized projects in 12 prefectures and referred to the audit findings in the Audit Report

for FY2007. In 2009, the Board conducted field audits on 28 prefectures and cities, including ordinance-designated cities, concerning administrative expenses for state-subsidized projects under the jurisdiction of the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Land, Infrastructure, Transport and Tourism.

The Board found out that the 28 prefectures and cities paid expenses for supplies by preparing false documents or otherwise carrying out improper accounting transactions or paid expenses for supplies, wages or travel expenses for purposes not covered by state-subsidies. The amount of state subsidies related to these improprieties totaled 1,473.02 million yen concerning the projects under the jurisdiction of the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Land, Infrastructure, Transport and Tourism. Some of the prefectures had suppliers return some of the payments in cash and used it for purposes other than the duties.

It is important for the 28 prefectures and cities to promote the prevention of recurrence by functioning internal control, executing budgets properly, strengthening the mutual check function through segregation of duties concerning accounting procedures and providing officials with thorough training and guidance about compliance with basic accounting laws and ordinances. It is important for the relevant ministries and agencies to continue to provide the prefectures with thorough guidance about proper accounting of administrative expenses for state-subsidized projects.

Regarding the accounting of administrative expenses for state-subsidized projects, because all the prefectures and cities on which the Board has so far conducted field audits carried out improper accounting transactions, the Board will continue audits also on other prefectures and cities.

C. Financial status of the Bank of Japan and its chronological changes

Since September 2008, the Bank of Japan has carried out various credit easing measures, such as reducing the interest rate for monetary policy again to supply ample funds. In principle, the Bank of Japan should accumulate 5% of the current surplus as the statutory reserves, distribute dividends to the investors and return the remaining amount to the people through payment to the National Treasury. Monetary adjustment and other operations influence the Bank of Japan's financial status and, as a result, influence the payment to the National Treasury. Because of this, the Board conducted field audits at the Bank of Japan and the Ministry of Finance concerning the Bank of Japan's financial status and changes in the condition from FY1998, when the totally amended Bank of Japan Act came into force.

Although long-term government bonds occupy a large portion of the Bank of Japan's assets, the Bank of Japan possesses most of them as a result of monetary adjustment. Because of this, the structure and size of its assets be greatly influenced by the monetary adjustment policy. As for its profit and loss structure, it gains profits mainly from interest on government bonds and other financial assets. Therefore, it can be inferred that its profits decreased when the central government adopted the quantitative credit-easing policy. There were also some years when

changes in the balance of profit and loss due to foreign exchange and stocks greatly influenced its current profits.

From FY2002 to FY2004 and in FY2008, the Bank of Japan accumulated an amount exceeding 5% of the current surplus as statutory reserves with the approval of the Minister of Finance, taking into consideration its financial soundness (in FY2008, among the current surplus of 300.2 billion yen, 45 billion yen was accumulated as statutory reserves and 255.2 billion yen was paid to the National Treasury). Upon application from the Bank of Japan, the Ministry of Finance should give the approval appropriately also in the future, paying attention to the characteristic of the Bank of Japan's profits that they should be returned to the people, and taking into consideration its financial soundness.

The Board will continue to closely watch the financial situation of the Bank of Japan, taking into account changes in the financial circumstances.

D. Current conditions of welfare facilities managed by independent administrative agencies and national university corporations

The Board conducted field audits concerning welfare facilities managed by independent administrative agencies and national university corporations, both of which have been capitalized by the central government.

The audit findings were as follows: 1) Regarding the management of apartments, there were cases where charges for apartments were reduced uniformly, although it was unnecessary to reduce charges for apartments for singles; there were also cases where the occupation rate was low in apartments where several rooms were rented collectively; 2) Regarding the disposal of welfare facilities, although there were many welfare facilities that national university corporations did not use much, the disposal of them was not proceeded so much, compared with independent administrative agencies' welfare facilities.

Therefore, they should cope with these problems as follows: 1) Regarding charges for apartments, examine the appropriateness of charges, taking into consideration changes in the social and economic circumstances, and review the calculation method if needed; regarding rental of apartments, determine the number of rooms and the term of rental, accurately grasping the situation of tenants, review contracts timely and appropriately according to changes in the circumstances, and otherwise manage the rental of apartments appropriately; 2) Regarding the disposal of welfare facilities, independent administrative agencies should steadily dispose of those designated as assets to be sold according to the plan to streamline independent administrative agencies and, even if welfare facilities are not designated as such assets, constantly review facilities that are not used much; national university corporation should grasp the status of use of welfare facilities and steadily dispose of unnecessary facilities according to an accurate disposal plan.

The Board will continue audits concerning welfare facilities managed by independent

administrative agencies and national university corporations, paying attention to changes in the social situation.

(4) Implementation Status of Audits the Board carried out for Specific Issues of Public Concern

The cases discussed at the Diet, the cases reported in newspaper and other cases drawing the interest of the people, main findings of audits conducted agilely or flexibly as needed have been classified into the following: 1) those related to improper accounting transactions; 2) those related to free contracts concluded by ministries and agencies; 3) those related to funds created with subsidies, land and buildings possessed by special accounts and independent administrative agencies, and surplus; 4) those related to the efficiency of administration expenses and the effectiveness of projects; and 5) others.

(5) Audits of Financial Documents of Special Accounts

Under the provision of Article 19 (2) of the Act on Special Accounts, the Board conducted audits on the financial documents of special accounts for FY2007 concerning the 28 special accounts under the jurisdiction of 10 ministries, which were sent from the Cabinet on November 14, 2008. The Board notified the Cabinet of the completion of the audits and returned the documents on December 25 of the same year.

The Board audited the documents from the aspects of accuracy and regularity, paying attention to whether the documents were in accordance with the Act on Special Accounts, the Ordinance for the Enforcement of the Act on Special Accounts, the Ministerial Ordinance on Disclosure of Information on Special Accounts and the standards for preparing financial documents of special accounts established pursuant to the provision of Article 1 of the Ministerial Ordinance. As a result, 14 cases of improper entry of amounts due to accounting transactions different from the standards were found in 8 special accounts under the jurisdiction of 7 ministries.

All the above-mentioned 14 cases were corrected by the ministries as required.