

Audit Report for FY2016: Outline of Selected Audit Findings

The Audit Report for FY2016 covers a wide variety of cases in different categories. The following is an outline of the audit findings on matters of great interest to the public, which features the characteristics of the report.

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1) Efforts towards the State's fiscal consolidation

<Category>

Report on specific matters

<Objectives of audit>

Audit conducted mainly with the objective of effectiveness

The Board of Audit conducted audit on the final accounts of the State's general account from 1997, the year the government designated as "the first year of fiscal structural reform," to 2016 with a focus on: 1) the extent to which the fiscal consolidation targets have been attained; 2) implementation status of measures the government needs to work on in each fiscal year; 3) status of the final accounts of the State, which is the result of the State budget execution including the supplementary budget; and 4) how the government provides information to the public.

The Board found the following: 1) The government did not set a medium- and long-term fiscal consolidation targets (hereinafter referred to as "the fiscal consolidation targets") for three fiscal years from FY1999 to FY2001, and therefore, it was not clear how the government would work on its fiscal consolidation during those years. Nonetheless, fiscal consolidation targets with specific numerical goals were established for the remaining fiscal years and measures which were supposed to have a direct impact on attaining the fiscal consolidation targets via the State's initial budget (hereinafter referred to as "action measures") were instituted; 2) With respect to the achievement status of the fiscal consolidation targets, the government had set a target to halve the primary balance deficit of the national and local governments to GDP ratio by FY2015 at the latest from the ratio in FY2010. Whereas the primary deficit to GDP ratio in FY2010 was minus 6.3 percent, the deficit to GDP ratio was minus 3.0 percent in FY2015, thereby attaining its said fiscal consolidation targets. In addition, with respect to the fiscal consolidation target of steadily reducing the public debt to GDP ratio, looking at statistics since FY2007, the public debt to GDP ratio continues to increase although the margin of increase is narrowing steadily after FY2013; 3) With respect to the achievement status of the action measures, with the exceptions of FY2003, FY2008 and FY2009, the action measures were implemented in the context of the initial budget, and the status of the action measures was publicly announced as such. However, if we are to examine the indicators set in the action measures on the basis of the final accounts, the levels required to be met in the initial budgets have not been achieved in ten fiscal years. Furthermore, it was not presented in the process of formulating the supplementary budget how much the level of achievement under the indicators set in the action measures will deviate from the levels originally required to be met in the initial budgets by executing the supplementary budget. Considering that formulating a substantial amount of supplementary budget has become the norm and the initial budget does not necessarily portray the overall status of the budget, if we are to consider the extent to which action measures are implemented only based on the initial budget, it is difficult to make a sufficient assessment as to whether the public finance of the State is heading towards achieving its fiscal consolidation targets. It is important that steady effort is made to disclose the extent of deviation from the required level for the initial budget due to the execution of the supplementary budget. In addition, it is important that the government

gives a clear account to the public regarding the current state of achievement of the fiscal consolidation targets in the same manner by using the final accounts which represent the result of the budget execution.

Therefore, with respect to the efforts toward fiscal consolidation, it is important that the government continues to set appropriate fiscal consolidation targets and make continuous efforts toward achieving them. With respect to the current state of each fiscal year's efforts, it is also important that the government make further efforts to fulfill accountability to the public by presenting the current state of the efforts made in each fiscal year by using the total amount of the budgets and their final accounts.

The Board of Audit will continue to pay close attention to the government's efforts toward fiscal consolidation.

2) Improper treatment of contracts concerning the follow-up system for health management support

<Category>

Improprieties (National Institutes for Quantum and Radiological Science and Technology)

<Objectives of audit>

Audit conducted mainly with the objective of economy

Despite the fact that the project to develop a follow-up system to support health management of workers engaged in the recovery operations after the accident at the Fukushima Daiichi nuclear power plant of the Tokyo Electric Power Company was obviously going to fail to provide the anticipated outcome, nevertheless, subsequent maintenance contracts were concluded without reviewing the project.

([Improper amount](#): 129.19 million yen)

3) Necessity to take measures for achieving full effect of constructed embankments which were not fully utilized due to the fact that partially unfinished sections or bridges which required rebuilding remained in sections where embankments were further to be developed under river improvement plans

<Category>

Special description (Ministry of Land, Infrastructure, Transport and Tourism)

<Objectives of audit>

Audit conducted mainly with the objective of effectiveness

The Board of Audit conducted audit on river improvement projects, such as development of embankments and rebuilding of bridges necessary due to the development of embankments, which had been conducted by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) as direct-controlled projects or subsidized projects, and found the following: 1) there are unfinished sections with the risk of overflow because the height of the embankments was lower than the estimated high-water level resulting in a discharge capacity less than the flow rate prescribed in the development plan, which could cause a geographically wide area of flooding and damage to homes (hereinafter referred to as “unfinished sections”); and 2) there are bridges that need to be rebuilt due to the risk of overflow from the areas where the bridges were built as the discharge capacity of those areas is less than the flow rate prescribed in the development plan or the bridge clearance height is lower than the designed high tide level, which could cause a geographically wide area of flooding and damage to homes (hereinafter referred to as “bridges requiring reconstruction”). These constitute vulnerable sites in terms of flood control safety, which are preventing the completed embankments situated in the upper and lower reaches of the river from being sufficiently effective. Therefore, it is necessary to expeditiously complete the construction work on the unfinished sections and the bridges requiring reconstruction in order to achieve full effect of embankments in the completed zones. However, the causes that led to the unfinished sections and the bridges requiring reconstruction include: for the former, an agreement to acquire the land or to start construction had not been reached with the registered land owners of the planned embankments sites; and for the latter, the necessary agreement to start negotiations with bridge administrators was not in place. In either case, the efforts of the river administrators alone were insufficient to reach a solution. Therefore, MLIT needs to take the following measures, and make efforts for an early resolution of the issue by advising the nine prefectures where the unfinished sections and bridges requiring reconstruction are located to do the same:

- A. With respect to the unfinished sections, make efforts to move the project forward by actively entering into negotiations and seeking further consultation with the registered land owners. In particular, with respect to sites where the situation have been left unresolved for a long period of time with no prospects for a solution, efforts should be made to seek further understanding from the registered land owners by thoroughly informing them about the benefits of completing the unfinished sections and thereby endeavor to resolve the unfinished sections and advance the project forward.

B. With respect to the bridges requiring reconstruction, as in the case of the unfinished sections, actively seek consultation with the bridge administrators by soliciting their understanding for the need to rebuild the bridges by thoroughly informing them about the benefits of rebuilding, and, with due consideration to the circumstances of the river administrators, endeavor to start construction of the unbuilt bridges without delay by encouraging the river administrators and the bridge administrators to work together to discuss matters concerning the construction period.

The Board of Audit will continue to pay close attention to the status of elimination of unfinished sections and bridges requiring reconstruction as well as to the effectiveness of the completed embankments as the progress of the river improvement projects is made.

Background amount: 41,208.69 million yen

Cost for the river improvement projects with respect to the completion of partially undeveloped sections or reconstruction of bridges in need of being rebuilt

4) Financial management of the imprest fund used in implementing the program for recovering the remains of the war dead abroad has been grossly improper

<Category>

Improprieties (Ministry of Health, Labour and Welfare)

<Objectives of audit>

Audit conducted mainly with the objective of regularity

The Board of Audit found gross mismanagement of the imprest fund in implementing the program for recovering the remains of the war dead abroad. The imprest fund for the program can only be used by officials designated ad interim to take charge of the fund when dispatched overseas if they make on-site payments in person and in cash for necessary expenses to implement the program. However, there were cases where the officials prepared false documents approving imprest fund payment and used the imprest fund in Japan prior to their dispatch overseas or had persons prepare receipts with inflated figures and pretended to have paid such amounts.

(Improper amount: 463.25 million yen)

5) Review of the management practices for subsidies

<Category>

Measures taken (Ministry of Land, Infrastructure, Transport and Tourism)

<Objectives of audit>

Audit conducted mainly with the objective of economy

The Japan Housing Finance Agency, an independent administrative agency, received government subsidies to address the problem of decreased revenues resulting from reduced mortgage rate. However, cost of the expenses paid by the banks to which the Agency entrusted its funds issued as subsidies, as a result of the negative interest rate of the current account balance held by them at the Bank of Japan, were passed to the Agency and paid from these funds due to the grant guidelines set by the Ministry of Land, Infrastructure, Transport and Tourism which allow only money trusts as a means of managing the fund.

Background amount: 96.27 million yen

Expenses paid by the agency in 2016 from funds issued as subsidies equivalent to the negative interest portion of the current account balance with the Bank of Japan

6) State of procurement of the next-generation fighter aircraft (F-35A)

<Category>

Special report to the Diet and the Cabinet

<Objective of audit>

Audit conducted mainly with the objective of effectiveness

The Board of Audit conducted audit on the state of procurement of the next-generation fighter aircrafts (F-35A).

The Board found the following: 1) with respect to the Foreign Military Sales (FMS) procurement, the Acquisition, Technology & Logistics Agency had no knowledge of quantitative factors leading to the rise in the main body price per aircraft; some of the defense-related equipment and parts scheduled for arrival before the end of FY2016 had not been provided for by the Government of the United States of America; and the F-35As received before the end of FY2016 were equipped with software different from that which had been requested due to development delays; 2) with respect to manufacturing participation by domestic corporations, their implementation plans were not coordinated to adjust production processes so as to the manufactured parts would be installed on corresponding aircrafts; and manufacturing subcontracts for the production of parts were not concluded with the foreign prime contractor; and 3) with respect to the project management, the results of a sensitivity analysis which took into consideration currency

fluctuations in estimating the life-cycle costs of the procurement project had not been shared among the relevant organizations.

Therefore, the Acquisition, Technology & Logistics Agency needs to: 1) with respect to the FMS procurement, continuously inquire the U.S. government, in an appropriate and timely manner, the factors that lead to the aircraft main body price fluctuation if it occurs; and coordinate with the U.S. government to ensure that the defense-related equipment and parts are promptly delivered as requested; 2) with respect to manufacturing participation by domestic corporations, coordinate the implementation plans so as to equip the corresponding aircrafts with the manufactured parts, and ensure that subcontracted manufacturing progresses as planned; and 3) with respect to the project management, after conducting the sensitivity analysis, share the analysis results with the relevant organizations.

The Board of Audit will continue to audit the state of the procurement of the next-generation fighter aircrafts (F-35A) from various perspectives.

7) Establishment of a verification system of financial statements submitted by international organizations following financial losses incurred at the International Tropical Timber Organization

<Category>

Presentation of opinions and/or demand for measures (Ministry of Foreign Affairs, Ministry of Agriculture, Forestry and Fisheries)

<Objectives of audit>

Audit conducted mainly with the objective of effectiveness

The Ministry of Foreign Affairs and the Forestry Agency (hereinafter referred to as “two government bodies”) have been making contributions to the International Tropical Timber Organization (ITTO). Between October 2012 and February 2014, then-executives of the ITTO secretariat used the contributed funds to invest in a financial institutions which had not been authorized by the Council (hereinafter referred to as the “unauthorized financial institutions”), in violation of ITTO’s financial rules. The unauthorized financial institutions subsequently underwent liquidation proceedings, making the invested funds unrecoverable. The two government bodies had received copies of ITTO’s financial statements and could have recognized that the ITTO had invested in the unauthorized financial institutions with a high credit risk had they carefully examined the financial statements. However, the Board found that the two government bodies had failed to sufficiently check the ITTO’s financial statements, and that the financial losses incurred due to the investment made in violation of the financial rules affected the ITTO projects implemented by contributions of the member countries including Japan. Therefore, the two government bodies need to take the following actions:

- A. Make sure that each staff member in charge is well informed of the importance of fully checking the contents of the financial statements submitted by the international organizations and establish specific procedures to verify the financial statements.
- B. In cases where international organizations to which the two government bodies make contributions manage the contributions in such a way that projects implemented by Japan's contributions are or likely to be severely affected, instruct thoroughly each staff member in charge so that the necessary measures for the appropriate management of the contributions will be taken at the Council.
- C. With respect to ongoing projects which are expected to experience fund shortage due to ITTO's financial losses, consider ways to implement the projects more effectively depending on the progress status of each project, so that the impact to the projects sponsored by the member countries including Japan be minimized, and, confirm the progress status of the projects in a timely manner to monitor the project management conducted by the ITTO secretariat.

Improper amount:
 560.38 million yen for the Ministry of Foreign Affairs
 251.18 million yen for the Ministry of Agriculture, Forestry
 and Fisheries (Forestry Agency)

8) Payment of survivors' pension under the National Pension Act and the Employees' Pension Insurance Act

<Category> Presentation of opinions and/or demand for measures (Ministry of Health, Labour and Welfare)
<Objectives of audit> Audit conducted mainly with the objective of regularity

The Ministry of Health, Labour and Welfare (MHLW) pays various forms of pension benefits with respect to the insuree's old age, disability or death and has delegated or entrusted portions of the administrative work related to benefit payouts to the Japan Pension Service (JPS). Of these pension benefits, the survivors' basic pension and the widow's pension under the National Pension Act (Act No. 141 of 1959) and the survivors' employees' pension (employees' pension paid to survivors) under the Employees' Pension Insurance Act (Act No. 115 of 1954) (hereinafter collectively referred to as "survivors' pensions") are benefits paid upon the death of the insuree to the surviving family members who were dependent on their livelihood by the insuree. Under the National Pension Act, the beneficial owner of the survivors' pensions (hereinafter referred to as "beneficial owner") loses their eligibility when he or she dies or marries (hereinafter the loss of eligibility to receive survivors' pensions is referred to as "forfeiture" and the death or marriage which is the cause of the forfeiture is referred to as "cause of forfeiture."). Thus, when the beneficial owner loses their eligibility due to the cause of forfeiture (with the

exception of death; the same shall apply hereinafter), the beneficial owner is required to submit a written notification (herein after referred to as “forfeiture notification”) with the date when the cause of forfeiture arise (hereinafter referred to as “forfeiture date”) as well as the cause of forfeiture to JPS before a given deadline. However, the Board found that survivors’ pensions were being paid to beneficial owners who have not submitted a forfeiture notification even though he or she were no longer eligible for the pensions due to the cause of forfeiture or who have submitted the forfeiture notification after the deadline or the forfeiture notification with the incorrect date of forfeiture. Therefore, MHLW needs to take the following measures:

- A. identify the beneficial owners who are no longer eligible due to the cause of forfeiture, and have them take procedures to pay back to JPS the survivors’ pensions paid to beneficial owners who have failed to submit a forfeiture notification even though the cause of forfeiture arose or who wrote an incorrect forfeiture date, with the exception of those cases where the statute of limitations has expired.
- B. establish and show to JPS a procedure to appropriately confirm the eligibility of the beneficial owner by utilizing tools such as the resident registry network or, if necessary, marriage registrations or the official copy of the family register, and instruct JPS to accurately and in a timely manner ascertain the date of forfeiture and the cause of forfeiture of the beneficial owners based on the said procedure.
- C. inform thoroughly beneficial owners through JPS that the survivors’ pension eligibility expires when the beneficial owner marries and they need to submit a forfeiture notification with the actual forfeiture date before the given deadline.

([Improper amount](#): 1,873.46 million yen)

9) Operation of the nationwide integrated system to support children and child-rearing

<Category>

Presentation of opinions and/or demand for measures (Cabinet Office)

<Objectives of audit>

Audit conducted mainly with the objective of effectiveness

The Cabinet Office has created a nationwide integrated system to support children and child-rearing (hereinafter referred to as “the Integrated System”), which is an attempt to share information relating to the implementation of the new program called the Comprehensive Support System for Children and Child-rearing (hereinafter referred to as “the New Program”) among municipalities, prefectures and the State. The Cabinet Office states as the objective of creating the Integrated System as: 1) to use the Integrated System to further enhance the New Program by collecting and analyzing various information with respect to the implementation of the New Program and to ensure accountability to the public by publicly disclosing such information; 2) to collect the most recent information on

childcare facilities which was confirmed as being qualified to receive financial aid from municipalities (hereinafter referred to as “confirmed facility or facilities”) amongst nursery centers licensed by prefectures, and to allow prefectures to output such information so that the most recent information can be quickly disclosed to help guardians select a confirmed facility; 3) to support municipalities’ administrative work related to grant applications for the state’s share of the financial assistance and to allow the effective execution of the said administrative work. However, the Board found that the stated objective of creating the Integrated System has not been sufficiently attained:

- only part of the municipalities have registered the required information to the Integrated System, which makes it difficult for the Cabinet Office to analyze the registered information and use it to further enhance the New Program;
- the input and output system of the Integrated System does not take into account the actual operations at the municipalities, and does not help facilitate the administrative work related to the grant applications on the part of the municipalities effectively; and
- disclosure of information using information registered on the Integrated System has not been sufficient and the electronic data output from the Integrated System has not been helpful to parents and guardians in selecting a confirmed facility.

Therefore, the Cabinet Office needs to do the following in its operations of the Integrated System so that the objectives of the Integrated System can be fully attained:

- A. A detailed review should be conducted on matters such as how to conduct analysis of the information collected by the Integrated System to further enhance the New Program, how to disclose information to ensure accountability to the public, and the scope of the registered information necessary for such disclosure.
- B. With above A. in mind, an overall review of the Integrated System should be conducted as to the scope of the registered information, the input and output system, and the operations of the Integrated System so that, by accurately finding out the actual operations of the municipalities and how they operate the Integrated System, and by analyzing why the number of registrations is behind expectations, the operations related to grant applications by the municipalities will be streamlined and the support for child-rearing will become more effective, and disclosure of information concerning the confirmed facilities in the prefectures will be more helpful to the parents and guardians in selecting a confirmed facility.

([Improper amount](#): 372.02 million yen)

(Notes)

Improper amounts: Improper amounts represent any deficiency in the collection of taxes or social insurance premiums to be collected; overpayments for construction or purchases; overpayment of subsidies; amount of credit managed improperly; amount of asset not utilized effectively; and any amount of assets stated improperly in the statements of account and financial statements.

Background amounts: Background amounts represent overall amounts of payments or investments etc. regarding matters concerned. Background amounts are presented when improper amounts cannot be calculated for audit cases such as: 1) where the Board finds, as a result of audit, any matters that it finds necessary to be improved with regard to laws and regulations, system or administration; and 2) which the Board reports to draw public attention to project cases of non-realization of investment effect due to problems in project progress caused by policy issues.