

## Audit Report for FY2017: Outline of Selected Audit Findings

The Audit Report for FY2017 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.

### Contents

a.	Ensuring safety of people's lives	
	<a href="#">1) Formulation of appropriate plans for forest conservation projects that would contribute to enhancement of measures against forest disasters in hazard areas and coordination with non-structural measures</a>	1
	<a href="#">2) Inspection of road structures</a>	3
b.	Social security	
	<a href="#">3) Additional fees for planning of treatment in calculating employment-related medical expenses</a>	4
c.	Implementation system and effective administration of programs and projects	
	<a href="#">4) Development of a pilot model system for cost analysis through integrated management of defense equipment cost data</a>	6
	<a href="#">5) Operation of public-private investment fund</a>	7
d.	Proper and fair operation of programs and projects	
	<a href="#">6) Eligibility for grants in independent daily life support projects as part of grants for Community Support Projects</a>	8
	<a href="#">7) Income taxation on payout in horse racing</a>	9
e.	Stocks including assets and funds	
	<a href="#">8) Implementation status of crisis management operations at the Shoko Chukin Bank, Ltd.</a>	10
f.	Proper execution of the budget and adequacy of the financial management	
	<a href="#">9) Supervision and acceptance inspection of outsourced services such as data entry</a>	12
g.	Environment and energy	
	<a href="#">10) Implementation status of projects supporting acceleration of renewable energy heat utilization</a>	13
	<a href="#">11) Determining the treatment capacity of recycling equipment at sludge treatment centers constructed by using grants for promoting establishment of a Sound Material-Cycle Society</a>	15

## **1) Formulation of appropriate plans for forest conservation projects that would contribute to enhancement of measures against forest disasters in hazard areas and coordination with non-structural measures**

### <Category>

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

### <Objectives of audit>

Audit conducted mainly with the objective of effectiveness

In order to promote forest conservation projects such as the development of forest conservation facilities, the Forestry Agency makes the Regional Forest Offices (hereinafter referred to as "Regional Offices") across the country implement direct-controlled national forest conservation projects (hereinafter referred to as "direct-controlled forest conservation projects"). On the other hand, Prefectures also implement their own forest conservation projects for privately owned forests subsidized by national and other grants (hereinafter referred to as "subsidized forest conservation projects"). In addition, the Forestry Agency issued the "Promotion of Measures for Protecting Forest Disaster Hazard Areas" (hereinafter referred to as "Notifications of Forest Disasters") and provided relevant municipalities with information (hereinafter referred to as "Forest Disasters Information") about forest disaster hazard areas (hereinafter referred to as "hazard areas").

However, the Board of Audit found following issues:

- In direct-controlled forest conservation projects, some forest conservation facilities were constructed based on national forest management implementation plans (hereinafter referred to as "forest management implementation plans") that did not reflect the results of forest conservation surveys by watersheds (hereinafter referred to as "watershed surveys"), which were conducted to assess the actual conditions of devastated mountains and collect basic information.
- In direct-controlled forest conservation projects, some forest conservation facilities were constructed based on forest management implementation plans formulated without watershed surveys for many years, which should be conducted every five years as a rule.
- In subsidized forest conservation projects, some forest conservation facilities pertaining to disaster-preventive forest conservation projects were constructed based on project location implementation plans (which refer to implementation plans for each project location that will be implemented in the following fiscal year; the same applies hereinafter) that were considered to be formulated without comprehensive assessment of the degree of hazards which were obtained from the results of surveys to assess hazard areas and their actual conditions.
- In both direct-controlled forest conservation projects and subsidized forest conservation projects, some forest conservation facilities were constructed without coordinating with the non-structural measures indicated in the regional disaster

prevention plans of relevant municipalities.

Therefore, the Forestry Agency should take following measures:

- A. To instruct Regional Offices to reflect the results of watershed surveys in formulating their forest management implementation plans and to assess actual conditions of devastated mountains and the necessity of developing forest conservation facilities by conducting watershed surveys in a timely and adequate manner.
- B. To require Prefectures to clarify specific reasons why the project locations are given priority when Prefectures select locations with a low degree of hazards as project locations in preparing project location implementation plans pertaining to disaster-preventive forest conservation projects, and to keep Prefectures informed about this requirement so that project locations will be selected by comprehensively assessing the actual conditions of local devastated mountains and their degree of hazards.
- C. To revise the existing Notifications of Forest Disasters so that Regional Offices and Prefectures can provide 1/5,000 scale maps showing the conservation target areas that might be damaged by forest disasters in hazard areas to municipalities relevant to measures and policies against forest disasters in addition to Forest Disasters Information.

Background amount: 41,122.15 million yen

Cost of constructing forest conservation facilities pertaining to direct-controlled forest conservation projects in municipalities whose measures for hazard areas were not included in their regional disaster prevention plans

Background amount: 15,645.22 million yen

Amounts of national and other subsidies granted for the cost of constructing forest conservation facilities pertaining to subsidized forest conservation projects in municipalities whose measures for hazard areas were not included in their regional disaster prevention plans

## 2) Inspection of road structures

### <Category>

Presentation of opinions and/or demand for measures (East Nippon Expressway Co., Ltd, Central Nippon Expressway Co., Ltd, West Nippon Expressway Co., Ltd)

### <Objectives of audit>

Audit conducted mainly with the objective of regularity

East Nippon Expressway Co., Ltd., Central Nippon Expressway Co., Ltd., and West Nippon Expressway Co., Ltd. (hereinafter referred to collectively as the "Companies") conduct inspections and maintenance of road structures such as bridges and tunnels under their management in accordance with the inspection and maintenance manual that each company formulated (hereinafter referred to as "inspection manual"). The Companies are outsourcing some parts of their inspection operations – such as on-site inspection operations, the recording of information pertaining to such inspection operations, and the preparation of draft proposals including maintenance and management plans for road structures – to 12 companies including Nexco-Engineering Hokkaido Co., Ltd. (hereinafter referred to as "Engineering Companies"), which are all engaged in inspection and maintenance operations. The Companies formulate their maintenance and management plans based on the inspection results reported by the Engineering Companies.

However, the Board of Audit found following issues:

- Thorough inspections in accordance with inspection manuals were not conducted in places where proximity visual inspections were physically difficult to conduct (hereinafter referred to as "difficult-to-inspect places").
- Inspection results of deformed structures status and repair results of these deformed structures were not properly recorded, so that these data could not be fully utilized for analyzing the causes of the deformation and for reviewing the maintenance and management plans.
- Those inspection results were not appropriately reflected in the maintenance and management plans.

Therefore, the headquarters of the Companies should take following measures:

- A. To inform the branch offices and administrative offices to use fiberscopes for inspection in difficult-to-inspect places by providing specific directions for how to use fiberscopes in manuals.
- B. To instruct the branch offices and administrative offices to record photographs the engineering companies took during their specific inspections in their data systems, as some photographs of deformed structures and repaired structures are not recorded in the data systems of the Companies at present.
- C. To make it a rule to properly record all photographs of deformed structures and

repaired structures in their data systems by revising the inspection manuals, and also to keep the branch offices and administrative offices informed thoroughly about the need of ensuring that the engineering companies are properly recording their data in the system.

- D. To grasp situations by having the branch offices regularly report the details of deformed structures judged as "AA" (cases that require prompt repairs because the degree of deformation is significant and the impacts on functional performance are very high) and the progress of the measures taken such as repair, and to establish a system so that measures such as repair can be taken accurately and promptly, for instance, by instructing the branch offices and administrative offices to properly reflect the inspection results to their maintenance and management plans.

Background amount:

54,998.12 million yen for East Nippon Expressway Co., Ltd.  
27,890.64 million yen for Central Nippon Expressway Co., Ltd.  
30,681.17 million yen for West Nippon Expressway Co., Ltd.

Amounts of contracts pertaining to operations such as the operation of inspection, the recording of information pertaining to inspection, etc., and the preparation of various proposals such as for maintenance plans.

### 3) Additional fees for planning of treatment in calculating employment-related medical expenses

<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 economy

In accordance with the Industrial Accident Compensation Insurance Act (Act No. 50 of 1947), the Ministry of Health, Labour and Welfare (MHLW) provides workers who have suffered from sicknesses or injuries resulting from an employment-related cause or commuting (hereinafter referred to as "sick and injured workers") with medical examinations, medical treatment procedures and operations (hereinafter referred to as "medical care") as benefits for medical care at the medical facilities designated by Director-Generals of the Prefectural Labour Bureaus of MHLW or Rosai hospitals (hereinafter referred to collectively as "designated medical facilities"). Specifically MHLW pays the expenses required for such medical care (hereinafter referred to as "employment-related medical expenses") to the designated medical facilities. Because sick and injured workers need to be treated as soon as possible so that they can return to work, special treatment plans should be drafted based on the "Calculation Standards for Employment-Related Medical Expenses," (hereinafter referred to as "Calculation

Standards"). For this reason, in calculating employment-related medical expenses, the need of "additional fees for medical care" is stipulated as a special calculation item for employment-related medical expenses, which are not included in Appended Table 1: Medical Fee Points (hereinafter referred to as the "Health Insurance Point Table") of the "Method for Calculating Medical Fees." With regard to the "additional fees for planning of treatment on medical care," when one of sick and injured workers is hospitalized to one of the designated medical facilities, a predetermined number of points can be added to the hospitalization basic fee or specified hospitalization fee (hereinafter referred to as "hospitalization basic fee"), if doctors and nurses jointly draft a comprehensive treatment plan, and if the doctors issue a medical treatment plan or an equivalent document to the worker and explain the name and site of the injuries, symptoms, and treatment plans within seven days after the hospitalization.

However, the Board of Audit found following issues:

- While at most of the designated medical facilities, the workers' hospitalized care plans prepared based on the Health Insurance Point Table were put in place of medical treatment plans without renewing the former plans.
- There were many of the same descriptions were observed in both of the formats of medical treatment plans and the formats of hospitalized care plans, the additional fees for planning of treatment on medical care were still defined as the special calculation item for employment-related medical expenses in the calculation standards, and in many cases the points for medical care were added to the hospitalization basic fee.

Therefore, MHLW should review additional fees for planning of treatment on medical care in calculating employment-related medical expenses, which includes re-looking at whether it is feasible to operate in line with the original objectives of introducing the scheme of the additional fees, based on the actual status of drafting treatment plans. Based on the results, MHLW should take a drastic review of the need of this system including the option of abolition.

([Improper amount](#): 89.57 million yen)

#### 4) Development of a pilot model system for cost analysis through integrated management of defense equipment cost data

<Category>

Presentation of opinions and/or demand for measures (Ministry of Defense)

<Objectives of audit>

Audit conducted mainly with the objective of effectiveness

In order to verify the adequacy of quotations in procuring defense equipment and the repair services (hereinafter referred to as "defense equipment"), the Acquisition, Technology & Logistics Agency (ATLA) developed a pilot model for life-cycle-costs and cost database (hereinafter referred to as "CDB"). The CDB is designed for integrated management and analysis of cost data such as computed price, which serve as the basis for determining target prices, and actual manufacturing costs (hereinafter referred to as "manufacturing costs") obtained from cost audits. To assess its usefulness, ATLA started an experimental operation of the system by inputting actual cost data. With the aim of increasing the opportunities to obtain information about manufacturing costs from private companies, ATLA is proactively conducting cost studies so that ATLA can also input the information about manufacturing costs obtained through such studies in the CDB.

However, the Board of Audit found following issues:

- Mainly because the CDB's cost management function only allowed the entry of either computed prices or manufacturing costs, the system was not designed to compare and analyze different cost data in the first place.
- Since most of the cost data input was not broken into smaller units than those of procurement contracts, the cost database was not suited for the intended analysis.
- Due to the limited number of cost studies, there were not many opportunities to obtain manufacturing costs.

As a result, the purpose of developing a cost management function was not fully achieved.

Therefore, ATLA should take following measures:

- A. To share problems within the organization concerning how to obtain manufacturing costs, to improve the system capable to deal with these types of issues, and to coordinate with private companies concerning the methods to obtain manufacturing costs suited for specific cost data analysis in order to come up with specific methods to analyze cost data.
- B. To study the ideal form of the system that would enable the verification of the usefulness of the CDB by verifying the reasonableness of quotations based on comparison and analysis of the actual cost data input after the measures of A. were taken, to take another look at the specifications of the CDB, and to establish a system

that is designed to proactively conduct cost studies in order to secure sufficient opportunities to obtain information about manufacturing costs.

[ Background amount: 233.73 million yen  
[ Cost for the development of the CDB ] ]

## 5) Operation of public-private investment fund

<Category>

Special report on audit requested by the Diet

<Objective of audit>

Audit conducted mainly with the objective of effectiveness

The Board of Audit conducted audits on the status of public-private investment fund operations.

The Board of Audit found the following:

- There were some public-private investment funds in which the percentage of the actual amount of assistance to the capital was 50% or less; in some indirect assistance programs through public-private investment funds, there were sub-funds that had no record of making any investments or that were already dissolved and completed liquidation without record of making any investments.
- Each corporation operating public-private investment funds should set its own key performance indicators (hereinafter referred to as "KPIs") to assess the progress of achieving the policy goal, although there were some KPIs whose necessity was questionable.
- In the Public-Private Innovation Program, four national university corporations had not utilized about 44.7 billion yen of the total government investment of 100 billion yen as of the end of FY2016.
- Of 13 corporations whose assets, liabilities, and net assets pertaining to public-private investment funds were available, 11 corporations were faced with the situation where the total amount of net assets fell below the capital as of the end of FY2016.
- None of the corporations operating public-private investment funds that completed at least one assistance program have disclosed information about the amount of profit or loss by each program.

Therefore, corporations operating public-private investment funds and concerned Ministries and Agencies should pay due attention to the following:

- To examine investment needs carefully on an ongoing basis.

- To review and revise the details of KPIs and outcome targets.
- To study necessary measures for paying back to the national treasury when part of the government investment is not likely to be spent in the Public-Private Innovation Program.
- To take necessary measures by continuous review of the plans to completely set off the loss carried forward, in order for the Government of Japan to be able to eventually collect the amount the Government invested.
- To disclose losses from individual programs as much as possible while paying attention to the confidentiality of information.

As public-private investment fund operations progress, many assistance programs will end and the amount of profit or loss of these programs will be determined. Therefore, the Board of Audit will continue to pay close attention to the status of public-private investment fund operations from various perspectives.

## **6) Eligibility for grants in independent daily life support projects as part of grants for Community Support Projects**

<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 effectiveness

The Ministry of Health, Labour and Welfare (MHLW) is providing grants for Community Support Projects (hereinafter referred to as "grants") to the Projects conducted by municipalities. When MHLW amended the Implementation Guideline for the Community Support Projects (hereinafter referred to as the "Implementation Guideline") in FY2015, independent daily life support projects (part of Community Support Projects) were newly introduced in place of their predecessor: family care continuation support projects (money and goods granted as allowance for family care services). In the new guideline, those eligible for grants in independent daily life support projects were defined as "family members who are currently taking care of those who require moderate- to high-level long-term care but are not receiving long-term care services" (hereinafter, those family members eligible for grants in independent daily life support projects are referred to as "those eligible for grants"). Municipalities have implemented projects to provide money and goods to family members who are taking care of those who require long-term care like the elderly, as benefits for family care services (hereinafter, those family members eligible for such money and goods are referred to as "those eligible for benefits"). In this setting, it was possible to include the eligible for benefits in the eligible for grants. According to MHLW, the purpose of attaching the condition of "not receiving long-term care

services" to 'those who require long-term care and are taken care of by those eligible for grants' was to avoid duplication within the same family (hereinafter referred to as "duplication of grants and insurance benefits") such as when those eligible for grants are receiving grants, and at the same time, 'those who require long-term care and are taken care of by those eligible for grants' are continually receiving long-term care services (receiving insurance benefits). The added condition was intended to harmonize independent daily life support projects with long-term care services under the long-term care insurance system. Under this condition, MHLW does not assume to include 'those eligible for benefits pertaining to those who require long-term care and are receiving long-term care services more than a total of ten days a year (hereinafter referred to as "continual service receivers")' in those eligible for grants.

However, the Board of Audit found that municipalities included 'those eligible for benefits pertaining to continual service receivers' in those eligible for grants, causing duplication of grants and insurance benefits, and that independent daily life support projects and long-term care services are not conducted in a completely consistent manner under the long-term care insurance system.

Therefore, MHLW should take necessary measures, including keeping municipalities informed about the range of long-term care services that those who require long-term care can temporarily receive by clearly indicating it in the Implementation Guideline in order to harmonize independent daily life support projects with long-term care services under the long-term care insurance system.

([Improper amount](#): 347.34 million yen)

## 7) Income taxation on payout in horse racing

<Category>

Report on specific matters

<Objectives of audit>

Audit conducted mainly with the objective of regularity

In recent years, the types of bets that may result in large payouts have become popular in horse racing, bicycle racing, compact car racing, and motorboat racing (hereinafter referred to collectively as "horse racing, etc."). The Board of Audit conducted audits on income pertaining to large payouts from horse racing, etc. with focuses on: 1) whether such income was properly reported for filing tax returns as occasional income or miscellaneous income; and 2) whether tax offices were effectively capturing such income through tax investigation.

The Board of Audit found the following:

According to tax returns filed in FY2015, there were 69 cases of tax returns in which a unit payout of 10.5 million yen or more (hereinafter referred to as a "large unit payout")

was reported, or was acknowledged to probably have been reported, as occasional income or miscellaneous income. The total amount of payouts pertaining to these 69 cases was approximately 6.73 billion yen. On the other hand, the number of and the total amount of large unit payouts made in that fiscal year was 531 units and approximately 12.74 billion yen, respectively. The Board of Audit examined how much of these large unit payouts – 531 units and approximately 12.74 billion yen – had been reported for filing tax returns. It was considered that most of the income pertaining to large unit payouts of approximately 10 billion yen was not reported. Admitting that a certain level of income tax returns would not be reported under the self-assessment system, still a large amount of income pertaining to payouts from horse racing, etc. was not reported. This examination suggested that tax payers were not yet accustomed to reporting occasional income such as large payout gains from horse racing, etc. However, while the National Tax Agency (NTA) was keeping tax payers informed about the need to file income tax returns in the situation like this, the Board of Audit found that NTA had room for improving its public relations activities. The Board of Audit also examined how tax offices tried to capture income pertaining to the 531 cases of large unit payouts through tax investigation, and found that it was difficult for tax offices to capture the payment of payouts from horse racing, etc. at a satisfactory level.

Therefore, based on the situation the Board of Audit found, NTA should improve its public relations activities so that tax payers will be urged to properly file income tax returns. At the same time, the Ministry of Finance should study ideal forms of systems from the standpoints of how to capture income pertaining to payouts from horse racing, etc. and improve the existing taxation system, through discussions with concerned Ministries and Agencies.

The Board of Audit will continue to pay close attention to taxations on income pertaining to payouts from horse racing, etc.

## **8) Implementation status of crisis management operations at the Shoko Chukin Bank, Ltd.**

<Category>

Special report to the Diet and the Cabinet (the Shoko Chukin Bank, Ltd.)

<Objectives of audit>

Audit conducted mainly with the objective of regularity

The Board of Audit conducted audits on the lending made by the Shoko Chukin Bank, Ltd. (hereinafter referred to as "Shoko Chukin") pertaining to crisis management operations (hereinafter referred to as "lending for crisis management").

The Board of Audit found that the Ministry of Finance, the Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Economy, Trade and Industry (hereinafter referred to collectively as the "competent Ministries that facilitate crisis management operations") had not conducted surveys based on interviews with ordinary financial

institutions about crisis designation and the continuation pertaining to the implementation of crisis management operations, with the exception of some crisis cases. During an internal investigation on lending for crisis management in 2013, Co-operative Finance Planning Division of Shoko Chukin recognized that at least eight misconduct cases were highly likely at its Nagano Branch. Despite that, the Division neither reported it to the Board of Directors nor investigated similar cases at other branch offices. Shoko Chukin did not conduct a detailed study on crisis management reserve to see whether the necessary financial foundation for the smooth implementation of crisis management operations was sufficiently ensured.

Therefore, Shoko Chukin should take following measures:

- To report the status of lending for crisis management appropriately to the Board of Directors, and to respond properly to the risk of misconduct such as falsification through internal audits.
- To provide training for staff members on how to confirm loan eligibility requirements and how to check the authenticity of data used for screening these eligibility requirements in order to prevent recurrence of such misconduct.
- To conduct detailed studies on crisis management reserve to see whether the necessary financial foundation for the smooth implementation of crisis management operations is sufficiently ensured, and to repay the amount of crisis management reserve to the national treasury when Shoko Chukin deems it possible.

As for the competent Ministries that facilitate crisis response operations, they should make accurate decisions on the necessity of crisis designation and the continuation of designation.

The Board of Audit will continue to audit the status of crisis management operations at Shoko Chukin.

## 9) Supervision and acceptance inspection of outsourced services such as data entry

### <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) is outsourcing or commissioning services pertaining to the national government business and projects to service providers. According to the Public Accounting Act (Act No. 35 of 1947), an official responsible for authorizing expenditures, or supervisor staff designated by an official responsible for authorizing expenditures, must provide necessary supervision to ensure an appropriate execution of a contract. Furthermore, an official responsible for authorizing expenditures, or inspection staff designated by an official responsible for authorizing expenditures, must undertake necessary inspections to confirm the completion of delivery and prepare an inspection report except for the cases where the amount of a contract is 2 million yen or less. In addition, MHLW stipulates that when a service provider recommissions or subcontracts these services, it must obtain prior approval. In such a case, MHLW must have the service provider submit a written application and must assess the appropriateness of it.

However, the Board of Audit found following issues:

- In some service contracts such as data entry, payments were made before completion of services based on factually inaccurate inspection reports.
- Some service providers subcontracted part of their services without taking procedures for obtaining approval from MHLW.
- Sufficient supervision was not provided to ensure the appropriate execution of contracts.

Therefore, MHLW should take following measures:

- A. To inform inspection staff about the need to comply with laws and regulations concerning public accounting through training programs so that contract services will be conducted properly.
- B. To fully examine whether the length of execution period for the service provider side is long enough to ensure the appropriate execution of the contract, in preparing a requirement document including specifications, at the Bureaus/Departments that implement the project, and to keep the Bureaus/Departments informed about the need to carefully check the project implementation system of the service provider that has submitted a successful bid.
- C. To keep service providers that are making a bid and that have submitted a successful

bid informed about the need to comply with contract clauses including those pertaining to subcontracts in the bidding process, at the Bureaus/Departments that implement the contract.

- D. To stipulate the targets and methods of on-site inspections so that the execution system and execution status of service providers can be investigated, including on-site inspections made by supervisor staff to check for the presence of subcontracting without obtaining approval, and to keep concerned parties informed about this procedure.

([Improper amount](#): 236.92 million yen)

## 10) Implementation status of projects supporting acceleration of renewable energy heat utilization

### <Category>

Presentation of opinions and/or demand for measures (Ministry of Economy, Trade and Industry)

### <Objectives of audit>

Audit conducted mainly with the objective of effectiveness

Between FY2011 and FY2015, the Agency for Natural Resources and Energy (ANRE) had given subsidies to the New Energy Promotion Council (hereinafter referred to as the "Council"), an organization that operated projects to subsidize part of the expenses required for projects to support the acceleration of renewable energy heat utilization, in which private-sector companies as project operators introduced facilities that utilized renewable energy heat such as solar heat, geothermal heat and biomass heat (hereinafter referred to as "renewable-heat-utilizing facilities"). Since FY2016, ANRE has given subsidies to the subsidized companies that operate projects to cover part of the expenses required for projects to support renewable energy companies (hereinafter referred to as "company-supporting projects"), in which private-sector companies introduced renewable-heat-utilizing facilities as project operators.

However, the Board of Audit found following issues:

- The fuel used at facilities utilizing biomass heat was different from the fuel described in utilization status reports, and the dependency rate on biomass of the fuel actually used was below 60%, the subsidy's minimum requirement.
- The operational status of renewable-heat-utilizing facilities and the ratio of the actual value to the planned value of supplied heat quantity (hereinafter referred to as "achievement ratio") could not be properly assessed in utilization status reports.
- Although some renewable-heat-utilizing facilities were shut down for an extended period of time, or the achievement ratios were too low, guidance for improvements

was not sufficiently provided.

Therefore, ANRE should take following measures:

- A. To instruct the Council to make sure that the project operators, who are involved in three projects at facilities utilizing biomass heat with a dependency rate on biomass less than 60%, to use an adequate fuel to meet the subsidy's requirements, and to instruct the Council to properly follow up the subsequent conditions of the three projects.
- B. To instruct the Council and the subsidized companies involved in company-supporting projects to keep project operators informed once again about the need of using a type of fuel with a dependency rate on biomass of 60% or more at facilities utilizing biomass heat; and to instruct them to keep project operators informed, by issuing notifications and clearly indicating it in the application guidelines for company-supporting projects, about the need to submit data supporting the accuracy of the calculation of the dependency rate on biomass, such as invoices in which the type of fuel actually used are described, so that the dependency rate of biomass can be properly assessed upon submitting utilization status reports to make sure the fuel used at facilities utilizing biomass heat meets the subsidy's requirements in these submitted documents.
- C. To instruct the Council and the subsidized companies involved in company-supporting projects to keep project operators informed, by issuing notifications and clearly indicating it in the application guidelines for company-supporting projects, about the need to submit data supporting the descriptions about the operational status of their facilities, so that the operational status and achievement ratios of their facilities can be properly assessed upon submitting utilization status reports.
- D. To instruct the Council and the subsidized companies involved in company-supporting projects to keep project operators informed by issuing notifications and clearly indicating it in the application guidelines for company-supporting projects, about the need to submit action plans for restarting the operation of the facilities and/or action plans for improving achievement ratios after the project operators analyze the causes, when renewable-heat-utilizing facilities are shut down or achievement ratios stay at low levels; and to instruct them to provide the project operators with guidance for improvements such as appropriately monitoring the progress of those plans, when receiving improvement plans.

(Improper amount: 1,004.86 million yen)

## 11) Determining the treatment capacity of recycling equipment at sludge treatment centers constructed by using grants for promoting establishment of a Sound Material-Cycle Society

<Category>

Presentation of opinions and/or demand for measures (Ministry of Environment)

<Objectives of audit>

Audit conducted mainly with the objective of economy

The Ministry of the Environment is giving grants for promoting the formation of a recycling-oriented society to municipalities, some administrative affairs associations and wide area union (hereinafter referred to as "project operators") that are developing sludge treatment centers (hereinafter referred to as "centers"). Centers are made up of wastewater treatment equipment and recycling equipment. In the wastewater treatment equipment, collected human waste (hereinafter referred to as "human waste") is separated into water and sludge, and the separated water is treated further. In the recycling equipment, compost and combustion improvers are produced from the sludge that was separated in the wastewater treatment equipment. According to the "Guidelines for Facilities Planning and Designing of Sludge Treatment Centers" (hereinafter referred to as "Guidelines for Planning and Designing"), the treatment capacity of recycling equipment should be determined based on the estimated quantity of sludge separated in the wastewater treatment equipment (hereinafter referred to as "sludge quantity"). As a rule, sludge quantity should be estimated based on the result of an on-site survey of the value of floating substance quantity (hereinafter referred to as "sludge property value"), which represents the concentration of sludge component contained in human waste.

However, the Board of Audit found that in determining the treatment capacity of the recycling equipment, some project operators estimated their sludge quantity not based on an on-site survey but based on the results of nationwide surveys that were described as reference in the Guidelines for Planning and Designing. In these cases, sludge quantity was estimated without taking into account the difference in sludge property value by region, and as a result, they developed recycling equipment with an excessive treatment capacity.

Therefore, when developing recycling equipment of centers using grants for promoting establishment of a Sound Material-Cycle Society, they should properly estimate sludge quantity through appropriate on-site surveys of the sludge property values of human waste, in order to develop equipment with a treatment capacity commensurate with the actual sludge quantity.

([Improper amount](#): 186.37 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.