

## I Basic Policy on Audit

The FY2021 Audit Report constitutes the results of the audit conducted in 2022 based on the Basic Policy on Audit for 2022.

### Basic Policy on Audit for 2022

Approved by  
the Audit Commission  
on September 7, 2021

To carry out audits for the year 2022 (audit implementation period: October 2021 - September 2022) efficiently and effectively and to perform its missions accurately in keeping with social and economic trends, the Board of Audit established its Basic Policy on Audit for the year 2022 as follows:

#### 1. Missions of the Board of Audit

The Board of Audit (the Board) has the following missions as a constitutional organization independent from the Cabinet.

The Board audits all of the final accounts of the expenditures and revenues of the State every year, and also audits such accounts as provided by law.

The Board continuously conducts audits, supervises financial management, ensures its adequacy, and rectifies any defects. Also, the Board verifies the final accounts of the expenditures and revenues of the State through the results of its audits.

The Board prepares and sends the Audit Report to the Cabinet. This Report, together with the final accounts of the expenditures and revenues of the State, shall be submitted to the Diet.

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

In recent years, Japan's society and economy have faced the significant tasks, such as accelerated decrease of population, rising social security expenses due to the declining birthrate and the aging population, not invigorate growth potential, and an increase in large-scale natural disasters. In addition, the ongoing COVID-19 pandemic has been seriously affecting Japan's society and economy, and has made it clear to address the urgent need to tackle the health crisis and issues such as a delay in digitalization. Also, reconstruction from the Great East Japan Earthquake (the earthquake and tsunami that occurred along the Pacific Ocean coast in the Tohoku Region on March 11, 2011, and the resultant accident at a nuclear power plant) has remained as an issue for Japan, therefore, the administrative authorities are required to deal with these challenges appropriately.

As for the fiscal position of the State government, continual issuance of government bonds, including those for COVID-19 countermeasures, is steadily increasing the outstanding debt, which is estimated to reach about 990 trillion yen at the end of FY2021. In the budget for FY2021, the level of dependence on government bonds is about 41% and the total expenditure required for redemption of national debt comprises about 22% of the general account expenditure, which poses a major challenge in achieving a sound fiscal position. Against this backdrop, the government has set a fiscal consolidation target in which it aims for a primary surplus together with national and local governments by FY2025, through efforts such as promoting integrated economic and fiscal reform (however, taking into account the unstable economic and financial situation due to the spread of COVID-19, the target financial year to achieve this goal will be reconfirmed in FY2021. This will be based on an investigation into the impact the pandemic has had on the economic and financial situation.)

Moreover, the importance of grasping the results of the State budget execution and reflecting them in the following budgets is deliberated in the Diet from the viewpoint of enhancing and strengthening fiscal administration control by the Diet. Taking into consideration that the Diet requested the Cabinet to submit the final accounts of the State earlier, the Board has been striving to submit its Audit Report to the Cabinet earlier than before, which helps the Diet deliberate the final accounts of the State earlier and enables the audit results to be better reflected in the budget.

Achievement of fiscal soundness has been an important issue, and importance is placed on the strict assessment and verification of the results of the State budget execution as well as the Government's fulfillment of accountability to the public. Furthermore, significant national expenses have been invested in order to implement a broad range of measures against the spread of COVID-19, and public interest is growing in terms of accountability for administrative and financial related matters.

Against this backdrop, the role of the Board, which audits the execution of budgets and reports the results of audits, including raising issues with the public on public administration and finance, has become even more important.

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

The Board has been striving to conduct audits in order to respond to public expectations in light of social and economic trends at all times. With the aim of continuing to properly fulfill its missions in the situation mentioned above, the Board will make every effort to ensure the strict and fair discharge of its duties and maintain and further improve the quality of audit activities while paying due attention to the public interest, and will carry out audits in accordance with the following policies.

#### **(1) Focus of audits**

In response to Japan's social and economic trends and its current financial condition, the Board has decided to focus its audit activities on the following policy areas of public administration:

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

Additionally, the Board appropriately and in a timely manner audits various measures for COVID-19 countermeasures according to the progress of those measures, also noting that a large amount of national expenses have been spent during a certain period for the purpose of preventing the spread of infection, securing systems for the provision of medical care, and maintaining employment and keeping businesses afloat.

When it conducts the audit, the Board takes into account the urgency required for the implementation of these programs and responds to the situation in a prompt and flexible manner, monitoring policies and trends of the government's efforts. Furthermore, for measures besides these areas, the Board appropriately and in a timely manner carries out audits while bearing public interest in mind.

## (2) Audits with various perspectives

The Board conducts audits not only to identify and disclose fraudulent and improper cases but also to evaluate the performance of operations and projects. Moreover, the Board conducts audits with a focus on the necessity of specific operational systems, if necessary.

The Board conducts audits with the following perspectives:

- (a) Accuracy: whether the final accounts accurately reflect the financial status such as the execution of the budgets
- (b) Regularity: whether the financial management is properly conducted in conformity with the approved budgets, laws and regulations
- (c) Economy: whether the implementation of projects and programs or budget execution is administered with the minimum cost
- (d) Efficiency: whether the projects and programs gain the maximum results with the given cost or have the best cost-efficient outcome
- (e) Effectiveness: whether the projects and programs achieve the intended results and produce the expected effects
- (f) Other objectives necessary for auditing

As for the perspectives of accuracy and regularity, the Board continues to duly conduct audits because there are still many cases of improprieties. The Board focuses on examining basic accountancy while considering the fact that there have been fraud and improprieties in some ministries. Furthermore, the Board conducts audits bearing in mind the competitiveness and the transparency of bidding and contracts.

With regard to the economy, efficiency, and effectiveness, in light of the serious financial condition in recent years, the Board puts greater importance on these perspectives. With the objective of effectiveness, in particular, the Board actively endeavors to review the results of operations, projects and budget execution. In such cases, the Board conducts audits with attention to auditees' self-evaluation of their policies and various measures carried out by the government for efficient and effective implementation of administrative work and projects. The Board also conducts audits with attention to the situations of the assets possessed by the State and funds developed by subsidies.

When there is any problem with the implementation of the operations and projects and the budget execution, the Board thoroughly investigates the causes and considers measures for improvement and if needed, abolishment of the program itself.

For the purpose of contributing to the improvement of the transparency and accountability of public administration and finance as well as better project implementation, the Board enhances its audits by conducting analyses based on the financial accounts of the State and entities regarding the State's financial position, the government's efforts toward fiscal consolidation, and the financial status of the special accounts and the incorporated administrative agencies. In the above cases, the Board utilizes information on public accounting such as financial documents of special accounts prepared with reference to practices of corporate accounting.

## (3) Approach corresponding to conditions of internal control

Since the conditions of internal control, such as internal audits and internal checks, in auditees affect the level of adequacy of financial management to be ensured in auditees, the Board pays due attention to the effectiveness of the internal control. The Board also requests the auditees to improve their internal control systems, if necessary, so that they ensure the adequate level of financial management.

#### (4) Follow-up of the audit findings

The Board continually checks on the state of improvements made by remedial and preventative measures against improper and irregular cases to ensure that audit results are reflected in the State budget compilation as well as in project implementation adequately and effectively.

Moreover, concerning improper cases in the Audit Report, the Board conducts audits necessary for improving similar cases with other auditees.

#### (5) Cooperation with the Diet

The Board always pays attention to the deliberations in the Diet. In auditing issues in response to audit requests under the Provisions of Article 105 in the Diet Act, the Board makes every effort to facilitate the Diet's examination and investigation by including the necessary research contents in the Board's audit activities, paying full attention to the intention of the Diet's request. The Board also makes efforts to actively submit reports to the Diet and the Cabinet to communicate its audit results in a timely manner in order to contribute to the Diet's sufficient examination of the final accounts.

#### (6) Improvement of audit capability and effectiveness of audit activities

The Board enhances its ability to conduct audits and the effectiveness of audit activities through efforts such as the development of new audit methods to respond to the movements of society and economy, and the changing social environment derived from various factors, including the COVID-19 pandemic and the accompanying changes in the State's financial and administrative operations, and efforts to promote the digitalization of administrative operations.

The efforts include: research studies to vary the method and scope of audit activities, including those in light of international trends of auditing, human resource development for auditing areas of expertise as well as use of personnel who have acquired practical skills and experts from the private sector, and more active use of IT in audit activities, including the use of remote audit methods. By adopting these practices, the Board conducts a more fulfilling audit for project/program of auditee matters as a whole.

Furthermore, through improving operational efficiency, the Board will promote the development of a work environment where all personnel can play an active role, and will strive to secure and educate human resources and improve their auditing abilities.

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

The Board designs appropriate audit plans and carries them out in order to conduct audits more effectively and efficiently and to achieve its mission, based on this Basic Policy on Audit.

In the audit plan, the Board establishes its priority audit issues, on which it should focus in audits, taking into full consideration the scale and content of the budgets of auditees, measures, projects and programs, the situations of internal control, the previous audits and results, etc. In doing so, the Board will conduct cross-cutting audits on policies jointly executed by several ministries and agencies and cases commonly related with several ministries and agencies.

In auditing, the Board attempts to enhance and strengthen audit activities by promptly and flexibly responding to the progress status of audits as well as public interests, for example, by reviewing the audit plan when necessary. In addition, the Board pays due attention to the effects of the COVID-19 pandemic on auditees.