

I Basic Policy on Audit

The FY2023 Audit Report constitutes the results of the audit conducted in 2024 based on the Basic Policy on Audit for 2024.

Basic Policy on Audit for 2024

Approved by
the Audit Commission
on September 14, 2023

To carry out audits for the year 2024 (audit implementation period: October 2023 - September 2024) 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 2024 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 task of responding to issues such as the declining birthrate and the aging society that are progressing rapidly, the decrease of the population that is underway at full scale, stagnant potential growth rate, and increased frequency and severity of natural disasters. While normalization after the COVID-19 pandemic is ongoing, there arise challenges to deal with the global surge in prices, severe security environment, and delay in the digitalization of the Japanese government.

Against this backdrop, budgets have been allocated for a broad range of programs in recent years, not only those for social security, education and science promotion, defense, and public works, but also those to address the impact of COVID-19 and global surge in prices on people's lives. Additionally, a large amount of reserve funds has been appropriated to prepare for unexpected changes in the situation. At the same time, the government has decided to fundamentally build up Japan's defense capabilities in the five years until FY2027, and is promoting initiatives to develop a digital society.

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 1068 trillion yen at the end of FY2023. In the budget for FY2023, the level of dependence on government bonds is about 31% 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. Under these circumstances, the government stated that it will not "lower the flag" of fiscal consolidation, working toward the fiscal consolidation goals stipulated to date. Meanwhile, it also expressed a need to keep a close eye on both domestic and international economic conditions, including the impact of the recent rise in prices, and to conduct necessary investigations depending on the 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.

Thus, achievement of fiscal soundness has been an important issue, and focus 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. Under the circumstances where there has been emergency fiscal spending in response to the spread of COVID-19, and national expenses have been invested in order to implement a broad range of programs to tackle price surges, the public interest in accountability for administrative and financial matters was further enhanced. Reflecting this situation, 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. Furthermore, the Board will strive to explain the audit results to the public in an understandable manner.

(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 programs of 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
- Digitalization

Additionally, the Board appropriately and in a timely manner audits various programs against the spread of COVID-19 and price surges, noting that a large amount of national expenses has been spent until now for these purposes.

Furthermore, for programs 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 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 or budget execution is administered with the minimum cost
- (d) Efficiency: whether the projects gain the maximum results with the given cost or have the best cost-efficient outcome
- (e) Effectiveness: whether the projects 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 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 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 projects and the budget execution, the Board thoroughly investigates the causes and considers measures for improvement and if needed, abolishment of the system 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, when improper cases are identified in the Audit Report, the Board will specify matters

related to the relevant case, such as the cause and improvement measures, and contribute to ensuring adequacy of financial management not only of the auditee in question, but also of other auditees. In addition, the Board conducts audits as necessary to confirm if similar cases are occurring 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 its work

The Board enhances its ability to conduct audits and the effectiveness of its work through continuous review, 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 in 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, efficient processing, analysis, etc. of massive data, and more active use of information and communications technology that enables remote audits. By adopting these practices, the Board conducts a more fulfilling audit for project 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, programs and projects, the situations of internal control, the previous audits and results, etc. In doing so, the Board will conduct cross-cutting audits on programs 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.