

CHAPTER SUMMARY OF AUDIT FINDINGS

Section 1. Outline

[Outline of Category]

The audit findings are stated below.

- (a) “Improprieties” (Matters which the Board identified in violation of, or improper under laws, regulations or appropriated budget)
- (b) “Presented opinions/Demanded measures” (Matters on which the Board presented its opinions to the Ministers concerned, or demanded measures from the competent authorities concerned, under the provision of Article 34 or Article 36 of the Board of Audit Law)
- (c) “Measures taken” (Matters on which the auditee took remedial measures in response to the inquiries of the Board)
- (d) “Special description” (Matters which, as a result of audits, the Board deemed it necessary to specially describe in the audit report)
- (e) “Special report to the Diet and the Cabinet” (Article 30-2 of the Board of Audit Law)
- (f) “Special report on audit requested by the Diet” (Article 30-3 of the Board of Audit Law and Article 105 of the Diet Law)
- (g) “Special report on audit implementation” (Report on audit activities of the Board carried out for specific issues of public concern)

(Note) The Board of Audit of Law (excerpt)

Article 30-2 The Board of Audit may, at any time, report to the Diet and the Cabinet on matters on which the Board presented its opinions or demanded measures under the provision of Article 34 or 36, or other matters which the Board deems particularly necessary to report.

Article 30-3 When the Board of Audit receives a request, from either House, any of the Committees of either House or any of the Research Committees of the House of Councilors, under the provision of Article 105 of the Diet Law (Law No.79 of 1947)(including the case where this is applied by Article 54-4 paragraph 1 of the same Law), it may conduct the audit upon specific matters requested and report the results.

Article 34 In case the Board of Audit finds in the course of its audit, such matters as it deems illegal or improper concerning financial transactions, it may immediately present its opinions upon them to, or demand appropriate measures for them from, the head of the department or persons concerned, and may make them take necessary measures to rectify and improve thereof.

Article 36 In case the Board of Audit finds such matters as it deems necessary to improve with regard to laws and ordinances, systems or administration, it may present its opinions upon them to, or demand measures for them from the competent authorities or other responsible persons.

The number and amount of audit findings in each category are as shown in the following table.

(Unit: 1 million yen)

Category	Number of findings / Reports	Improper amounts ^(Note 1) [Background amounts]
Improprieties	390	14,108.05
Presented opinions / Demanded measures	8 under Article 34	13,580.28
	1 under Article 34 and Article 36	(1,511.85)
	5 under Article 36	16.10
		(1,875,546.80)
		(165,800.00)
(4,400.00)		
Measures taken	41 ^(Note 2)	<38 cases> 17,592.84
		(1,155.64)
		(2,290.39)
		(1,119.83)
		(23,275.37)
		(21,946.71)
		(35,000.00)
Special description	4	(502,800.00)
		(128,900.00)
		(83,500.00)
		(1,032,200.00)
(Total for improprieties)	449	<437 cases> 45,297.27
Special report to the Diet and the Cabinet	5 ^(Note 3)	
Special report on audit requested by the Diet	7	
Special report on audit implementation	14	
Grand total	473 ^(Note 4)	<437 cases> 45,297.27

(Note 1) 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; and any amount of assets stated improperly in the financial statements.

Background amounts represent overall payments and investments made in cases where an inappropriate or unreasonable situation occurred with regard to accounting due to “laws and ordinances,” “systems,” or “administration,” and in cases where problems concerning policies prevented projects from progressing and consequently the investment outcomes were not achieved. Since such payments or investments are not necessarily regarded as “improper amounts” in these cases, the “background amounts” are distinguished from the “improper amounts.” The “background amounts” are not totaled up, since the basis for determining the background amounts differs from case to case.

(Note 2) “Measures taken” includes 3 cases that involved both an improper amount and a background amount.

(Note 3) Of the 5 reports under “Special report to the Diet and the Cabinet,” one is reported as a “Presented opinions/Demanded measures” and one is reported under “Special description”.

(Note 4) The duplicate reports (2 reports) described in Note 3 were excluded from the total number of cases.

[Outline of Audit Results by Category]

The numbers and amounts of “Improprieties”, “Presented opinions / Demanded measures” and “Measures taken” by ministries, agencies and other organizations are as shown in the following table.

(Unit: million yen)

Auditee \ Category	Improprieties		(Note 1) Presented opinions / Demanded measures		Measures taken		(Note 2) Total	
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount
Courts in Japan					1	27.40	1	27.40
Cabinet Office (National Police Agency)					1	912.86	1	912.86
Cabinet Office (Defense Agency)	9	101.91	1	16.10	3	134.24	13	252.25
Ministry of Internal Affairs and Communications	6	18.92			1	92.50	7	111.42
Ministry of Finance	2	522.63					2	522.63
Ministry of Education, Culture, Sports, Science and Technology	1	4.27	1	(1,875,546.80)	(Note 3) 2	4,382.64 (1,155.64)	4	4,386.91 (1,875,546.80) (1,155.64)
Ministry of Health, Labour and Welfare	266	10,587.09	1	134.16	3	(Note 4) 381.03	270	11,102.28
Ministry of Agriculture, Forestry and Fisheries	18	657.56	1	(165,800.00)	(Note 3) 6	1,857.09 (2,290.39) (1,119.83)	25	2,514.65 (165,800.00) (2,290.39) (1,119.83)
Ministry of Economy, Trade and Industry	13	352.73			(Note 5) 2	(Note 5) 352.09	15	704.82
Ministry of Land, Infrastructure and Transport	26	269.61			6	(Note 4) 7,530.47	32	7,800.08
Ministry of the Environment	1	185.00					1	185.00
The Government Housing Loan Corp.					1	68.00	1	68.00
The Promotion and Mutual Aid Corporation for Private Schools of Japan	2	2.89					2	2.89
Bank of Japan					(Note 5) 3	(Note 5) 380.97	3	380.97
The Shoko Chukin Bank					1	60.96	1	60.96

Kansai International Airport Co., Ltd.	1	48.28					1	48.28
Deposit Insurance Corporation	1	6.31					1	6.31
Japan Post	35	753.46					35	753.46

Auditee	Category		(Note 1) Presented opinions / Demanded measures		Measures taken		(Note 2) Total	
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount
National International Airport Corporation	2	216.67					2	216.67
National Institute of Information and Communications Technology	2	61.72					2	61.72
National Museum of Art			1	(1,511.85)			1	(1,511.85)
National Museum					1	200.26	1	200.26
National Agriculture and food Research Organization					1	27.80	1	27.80
National Agency of Vehicle Inspection					1	48.83	1	48.83
Agriculture & Livestock Industries Corporation	1	11.27					1	11.27
Japan External Trade Organization	1	7.29					1	7.29
Japan Railway Construction, Transport and Technology Agency					1	41.70	1	41.70
National Agency for Automotive Safety & Victims' Aid	1	91.17					1	91.17
Japan Labour Health and Welfare Organization					1	(23,275.37)	1	(23,275.37)
Organization for Small & Medium Enterprises and Regional Innovation, JAPAN					1	(21,946.71)	1	(21,946.71)
Urban Renaissance Agency					1	54.50	1	54.50
Japan Expressway Holding and Debt Repayment Agency			1	(Note 6) 915.56			1	(Note 6) 915.56
East Nippon Expressway Company Limited			1	(Note 6) 250.70			1	(Note 6) 250.70
Metropolitan Expressway Co., Ltd.			1	(Note 6) 6,780.08	1	23.30	2	(Note 6) 6,803.38
Central Nippon Expressway Company Limited			1	(Note 6) 1,226.85			1	(Note 6) 1,226.85
West Nippon Expressway Company Limited			1	(Note 6) 4,258.25			1	(Note 6) 4,258.25
Hanshin Expressway Company Limited			1	(Note 6) -			1	(Note 6) -
Honshu-Shikoku Bridge Expressway Company Limited			1	(Note 6) 14.67			1	(Note 6) 14.67

Auditee / Category	Improprieties		(Note 1) Presented opinions / Demanded measures		Measures taken		(Note 2) Total	
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount
Japan Broadcasting Corporation (NHK)	1	19.95			1	(35,000.00)	2	19.95 (35,000.00)
Central Japan International Airport Co., Ltd.	1	189.23					1	189.23
NTT East Corporation			1	(4,400.00)	1	84.60	2	84.60 (4,400.00)
NTT West Corporation			1	(2,900.00)	1	158.60	2	158.60 (2,900.00)
University of the Air					1	1,007.44	1	1,007.44
Total	390	14,108.05	14	(Note 6) 13,596.38	(Note 5) 41	(Note 4)(Note 5) 17,592.84	(Note 5) 445	(Note 4)(Note 5)(Note 6) 45,297.27

(Note 1) Concerning the item “Presented opinions/Demanded measures,” the cases identified with refer to audit findings coming under Article 34 of the Board of Audit Law, and the cases identified with refer to those coming under Article 36.

(Note 2) The amounts in parenthesis are background amounts, which are not totaled up since the basis for determining the background amounts differs from case to case.

(Note 3) “Measures taken” includes three cases that involved both an improper amount and a background amount.

(Note 4) One case of the Ministry of Health, Labor and Welfare and one case of the Ministry of Land, Infrastructure and Transport, respectively, concerned the same situation, and these amounts were rounded down less than ten thousand yen, and these amounts were included in the total amount.

(Note 5) One case of the Ministry of Economy, Trade and Industry and the one case of Bank of Japan were duplicated. This duplication was excluded from the total number of cases and the total amount.

(Note 6) The each amount of Japan Expressway Holding and Debt Repayment Agency, East Nippon Expressway Company Limited, Metropolitan Expressway Co., Ltd., Central Nippon Expressway Company Limited, West Nippon Expressway Company Limited and Honshu-Shikoku Bridge Expressway Company Limited was rounded down less than ten thousand yen and these amounts were included in the total amount. In addition, the amount of Hanshin Expressway Company Limited was an audit finding concerning the Company in the calculation of the price for its assets taken over by the Japan Expressway Holding and Debt Repayment Agency, and that amount was included the amount of the Agency.

In addition, there are four “Special Description” cases whose background amounts are respectively 502,800 million yen, 128,900 million yen, 83,500 million yen and 1,032,200 million yen.

Summaries of the matters related to the 449 cases cited above are described below.

Section 2. Improprieties (390 cases)

1. Improprieties related to revenues (6 cases; 3,574.93 million yen)

Ministry or Agency	Taxes	Insurance premiums	Illegal acts	Others	Total
	Cases	Cases	Cases	Cases	Cases
Ministry of Finance	2				2
Ministry of Health, Labor and Welfare		2	1		3
Narita International Airport Corporation				1	1
Total	2	2	1	1	6

(1) Taxes (2 cases; 522.63 million yen)

< Improper collection of taxes >

Ministry of Finance

- There was an excess or deficiency in taxes collected from 182 taxpayers. Although they had declared wrong amounts for income and tax in the return forms, the tax authorities could not identify the errors or mistakes because their collection or utilization of taxation materials was not appropriate or they simply overlooked those mistakes.
(1 case; 515.74 million yen)
- A tax claim concerning inheritance taxes was extinguished because the Ministry halted disposition for failure to pay taxes without a sufficient investigation of the property of the joint obligor of payment for inheritance taxes.
(1 case; 6.88 million yen)

(2) Insurance premiums (2 cases; 3,041.89 million yen)

< Improper collection of insurance premiums >

Ministry of Health, Labor and Welfare

- There was a deficiency in health and/or welfare pension insurance premiums collected from 1,111 proprietors that hired many temporary employees, including part-time employees. Although they had to submit applications for the qualification of insurance on behalf of those part-time employees who were working continuously, they failed to do so. The investigation, confirmation and guidance by the insurance authorities were not adequate.
(1 case; 2,787.87 million yen)

- There was an excess or deficiency in labor insurance premiums collected from 400 proprietors. Although they had entered wrong amounts for wages in their reports, the investigation and confirmation of the authorities were not adequate.
(1 case; 254.02 million yen)

(3) Illegal acts (1 case; 3.98 million yen)

< Embezzlement >

Ministry of Health, Labor and Welfare

- When an employee of a Social Insurance Office was engaged in collection activities for employees' pension insurance premiums and other fees, the employee embezzled the funds without depositing the insurance premiums and other amounts accepted in cash directly from delinquent proprietors to the State treasury.
(1 case; 3.98 million yen)

(4) Others (1 case; 6.42 million yen)

< Failure to collect land rents >

Narita International Airport Corporation

- Regarding the land used as a parking lot developed, managed and operated by a real estate management company and other firms on an alternative land being held to be offered to a land owner when its land is acquired for the airport, no land lease agreement was concluded and rent was not being collected.
(1 case; 6.42 million yen)

2. Improprieties related to expenditures (348 cases; 9,688.48 million yen)

Ministry or Agency	Mis-appropriation	Illegal acts & Mis-appropriation	Construction	Services	Insurance benefits	Medical expenses	Subsidies	Illegal acts	Others	Total
	Cases	Cases	Cases	Cases	Cases	Cases	Cases	Cases	Cases	Cases
Cabinet Office (Defense Agency)	8							1		9
Ministry of Internal Affairs and Communications							6			6
Ministry of Education, Culture, Sports, Science and Technology							1			1
Ministry of Health, Labor and Welfare	81	18		1	4	2	156	1		263
Ministry of Agriculture, Forestry and Fisheries	1			1			16			18
Ministry of Economy, Trade and Industry				1			12			13
Ministry of Land, Infrastructure and Transport							23	2	1	26
Ministry of the Environment							1			1
The Promotion and Mutual Aid Corporation for Private Schools of Japan							2			2
Kansai International Airport Co., Ltd.			1							1
Deposit Insurance Corporation	1									1
Narita International Airport Corporation			1							1
National Institute of Information and Communications Technology				1					1	2
Agriculture and Livestock Industries Corporation							1			1
Japan External Trade Organization				1						1
Nippon Hoso Kyokai (NHK: Japan Broadcasting Corporation)								1		1
Central Japan International Airport Co., Ltd.			1							1
Total	91	18	3	5	4	2	218	5	2	348

(1) Misappropriation (91 cases; 5,795.50 million yen)

< Improper accounting >

Cabinet Office (Defense Agency)

- When executing budgets related to field technological activities intended for multiple construction works, funds were incorrectly paid from the improper budget line items even though the Agency should have disbursed funds from line item corresponding to each construction works. This was improper and violated the accounting law etc.
(8 cases: 99.66 million yen)

Ministry of Health, Labor and Welfare

- When purchasing goods, Labor Bureaus decided to treat goods as delivered even though the contracted goods were not delivered, engaged in improper public accounting practices such as preparing false documents related to the delivery, and disbursed funds as amounts such as procurement expenses.
(47 cases; 2,705.18 million yen)
- Labor Bureaus' accounting transactions violated the accounting laws. For example, when purchasing goods, employees prepared false documents indicating that competitive bids had been received, and concluded purchase contracts with parties that had been already selected informally as contractor.
(2 cases; 603.21 million yen)
- Regarding transactions such as the procurement of an employment information search engine system, Labor Bureaus concluded contracts for provision of services over several fiscal years, and paid the full contract amount within the fiscal year when the contract was signed. This was improper and violated the accounting law etc.
(32 cases; 2,358.46 million yen)

Ministry of Agriculture, Forestry and Fisheries

- When concluding a contract to outsource the development of programs used for office processing of paddy agriculture structural reform measures, the Ministry used program copyrights that are State property as a means of payment and did not properly manage the copyrights as State properties. As a result, the accounting was not correct.
(1 case; 22.65 million yen)

Deposit Insurance Corporation

- Although employees purchased airline tickets at package tour rates or advanced purchase cheaper fares for business trips, they requested reimbursement for travel expenses by submitting receipts showing amounts differing from the amounts actually paid. As a result, the travel expenses were overpaid.
(1 case; 6.31 million yen)

(2) Illegal acts and misappropriation (18 cases; 308.80 million yen)

< Improper accounting and embezzlement >

Ministry of Health, Labor and Welfare

- Labor Bureaus' accounting transactions violated the accounting law etc. For example, employees improperly used procurement expenses, rewards, travel expenses and overtime

allowances for purposes other than the proper business purposes by forging document details and embezzled government fund.

(18 cases; 308.8 million yen)

(3) Construction (3 cases; 447.77 million yen)

< Inappropriate design >

Kansai International Airport Co., Ltd.

- Because a bridge collapse prevention device in the bearing components was not installed in designing the approach light inspection bridge during execution of the approach light inspection bridge installation work, the design was inappropriate and the required level of safety for the approach light inspection bridge bearing components was not secured.

(1 case; 48.28 million yen)

Narita International Airport Corporation

- Because a displacement restriction mechanism perpendicular to the direction of the bridge axis was not installed in designing the bridge collapse prevention system during execution of bridge replacement work, the design was inappropriate and the required level of safety for the bridge superstructure was not secured.

(1 case; 210.25 million yen)

Central Japan International Airport Co., Ltd.

- Regarding the implementation of construction work for the airport vicinity warning system, a decision was made that it was unnecessary to reinforce the support pillars immediately even though the load against the support pillars increased substantially by placing the sensors on the perimeter fences. The design was inappropriate. As a result, the required strength of the perimeter fences was not ensured.

(1 case; 189.23 million yen)

(4) Services (5 cases; 169.22 million yen)

< Improper payment of outsourcing expenses >

Ministry of Economy, Trade and Industry

- Regarding the operation of the nuclear power station emergency communications network system, the Ministry improperly paid the amounts for the contracts without verifying contract execution, even though the communication devices for the system had not been repaired to restore their functions, maintenance checks for the facsimile machines had not been conducted for extended periods and storage battery replacement operations had not been performed.

(1 case; 6.15 million yen)

National Institute of Information and Communications Technology

- Regarding the settlement of outsourcing expenses related to an outsourcing contract, the contractor calculated labor expenses without basing the amount on the actual outsourcing performance. Because the contractor insisted that there was no documentation explaining the working time engaged in the activity, the Institute improperly paid the outsourcing expenses without confirming the contract-related labor expenses.
(1 case; 52.40 million yen)

< Overpayment of commissions >

Ministry of Health, Labor and Welfare

- The Ministry overpaid the commission because of fictitious goods purchase expenditures, when implementing outsourcing activities related to stable employment / business creation measures and emergency local employment promotion projects.
(1 case; 67.21 million yen)

The Ministry of Agriculture, Forestry and Fisheries

- The Ministry overpaid the commission when implementing outsourcing activities related to the analysis and use of forest resource data, for example, because personnel expenses were calculated including days when employees were engaged in other activities and computer usage charges were calculated without using the amount of actual expenditures required for the activities.
(1 case; 36.16 million yen)

Japan External Trade Organization

- The Organization overpaid outsourcing expenses related to activities contributing to the welfare of directors and employees, because an excess and deficiency in the operating expenses for some activities outsourced did not reflect the amounts paid.
(1 case; 7.29 million yen)

(5) Insurance benefits (4 cases; 279.67 million yen)

< Improper payment of insurance benefits >

Ministry of Health, Labor and Welfare

- Old-age pensions were improperly paid to 535 persons. Although the whole or part of the pension was not due to be paid to pensioners who were employed on a regular basis, the employers did not report the fact of employment to the authorities concerned and the investigation, confirmation and guidance of the authorities concerned were not adequate.
(1 case; 191.4 million yen)

- Unemployment insurance benefits were improperly paid to 293 people. Recipients concealed their reemployment or entered an improper date for their reemployment in applications for unemployment benefits, and the investigation and checks of the employment offices were not adequate.
(1 case; 64.66 million yen)
- Subsidies for employment promotion for specified job applicants were improperly paid to 37 entities. The employers improperly applied for the subsidies, by reporting some individuals who had been already employed as new employees through introduction of the public employment security office, for example, which differed with the facts. The investigation and checks by the employment offices concerned were not adequate.
(1 case; 20.14 million yen)
- Unemployment insurance benefits were improperly paid to two employers. The employers incorrectly reported individuals who were ineligible to receive benefits on the application forms for payments of subsidies for stabilization of employment opportunities of regional workers with advanced skills and Okinawa youth employment subsidies under the regional employment development subsidy system. The investigation and checks by the employment office concerned were not adequate.
(1 case; 3.45 million yen)

(6) Medical expenses (2 cases; 460.22 million yen)

< Improper payment of medical expenses >

Ministry of Health, Labor and Welfare

- Medical expenses for the elderly were improperly paid to 171 medical institutions and 36 pharmacies. Although they improperly claimed for medical treatment fees such as basic hospital fees, home care fees, additional basic hospital fees and pharmacy fees, the investigation and checks of the insurers concerned and their agents were not adequate.
(1 case; 409.92 million yen)
- Payments of the medical insurance for workers' accident compensation insurance were improperly made to 279 medical institutions. Although they improperly claimed for fees for operations and hospitalization, the investigation and checks of the insurers concerned and their agents were not adequate.
(1 case; 50.29 million yen)

(7) Subsidies (218 cases; 2,166.52 million yen)

< Improper execution of projects and improper accounting transactions >

Ministry of Internal Affairs and Communications

- In submitting requests for State subsidies, the entities undertaking projects for improvement of disparities in information and telecommunications access included costs for constructing systems that were not included in the items to be delivered and unnecessary testing costs in the costs eligible for subsidies, and did not proportionately calculate the costs eligible for subsidy using the ratio for each activity, which resulted in excessive subsidies being paid for these items.
(6 cases; 18.92 million yen)

Ministry of Education, Culture, Sports, Science and Technology

- Regarding the accounting of State subsidies for expenditures on public school facilities, because construction costs for earthquake-proof reinforcement works at elementary school facilities were excessive, costs eligible for subsidies were calculated excessively. As a result, subsidies were overpaid to the entity undertaking these projects.
(1 case; 4.27 million yen)

Ministry of Health, Labor and Welfare

- Regarding the development of an electronic clinical record system under a medical facilities modernization and facilities improvement project, part of the system was inoperable because of delays in software development, which caused the system devices introduced to be removed. As a result, a part of the project was not implemented.
(1 case; 20.85 million yen)
- Operating expenses eligible for subsidies were overpaid because costs related to areas shared with other welfare facilities constructed in the building were not properly calculated for State subsidies for health and hygiene facilities and equipment installation and maintenance expenses.
(1 case; 7.94 million yen)
- Subsidies for supporting earlier reemployment were improperly paid to 25 employees. Although they entered false dates of employment in the applications, the investigation and checks by entities concerned were not adequate.
(1 case; 10.59 million yen)
- Subsidies for home welfare businesses were overpaid. Although personnel expenses such as the wages of those engaged in subsidized businesses were paid from the government's general revenue, they were included in the subsidized expenses.
(8 cases; 38.04 million yen)

- Subsidies were overpaid when calculating child care expense subsidies as portion for the maternity leave alternative worker system activity, because full-time employees who had been working since long ago were appointed temporarily and individuals lacking the same qualifications as the employees taking maternity leave were appointed.
(8 cases; 25.46 million yen)
- In submitting requests for the State subsidies, many municipalities failed to comply with the requirements of the relevant regulations concerning the obligations for child-care. These municipalities miscalculated fees collected from the parents of children who are accommodated in nursery schools, and they applied wrong standard rates for fee collection set by the national government, resulting in the excessive subsidies to these municipalities.
(36 cases; 50.20 million yen)
- Child support allowance benefits were overpaid. Although recipient mothers lived together with individuals obligated to provide their children with support who had income exceeded the income limitation amount, allowances were granted, considering their livelihoods were not the same.
(8 cases; 110.54 million yen)
- In submitting requests for the State subsidies, many municipalities failed to comply with the requirements of the relevant regulations concerning social assistance. The assessment of the beneficiaries' income from their work was lower than the actuality, which resulted in the provision of excessive subsidies to these municipalities.
(14 cases; 68.67 million yen)
- Subsidies for mental health measures were overpaid because facilities improvement costs that are not eligible for subsidies and the lunch costs for hospitalized individuals were included in expenditures covered by subsidies.
(4 cases; 22.47 million yen)
- Subsidies for ordinary adjustment of nursing care insurance were overpaid because the basic standard adjustment payment and ordinary adjustment grant ratio were excessively calculated with errors in the amount of nursing care costs and the number of the insured by income level.
(3 cases; 16.72 million yen)
- Subsidies for the provision of medical benefits under the national health insurance scheme were overpaid to municipalities because the municipalities failed to deduct the amount of medical benefits to retired employees insured retroactively from the amount of medical benefits to the ordinary insured, and excessively calculated medical care benefits to the

ordinary insured owing to errors in re-entering data from original materials.
(18 cases; 159.21 million yen)

- Subsidies for financial adjustment under the national health insurance scheme were overpaid to municipalities because the municipalities overestimated the expenditures covered by the adjustment or underestimated the revenues covered by the adjustment.
(54 cases; 219.42 million yen)

Ministry of Agriculture, Forestry and Fisheries

- Although large grain-sized stones should have been used as filler along the front surface of blocks with the slits, in constructing shore protection works using environmental preservation-type blocks, extremely small-sized earth and sand particles were used. Therefore, a part of the filler material flowed out of the slits, creating a potential for the shore protection works to collapse. As a result, the objectives of the shore protection works of the field zone integration and farmland consolidation project were not achieved.
(1 case; 3.46 million yen)
- Regarding the provision of subsidies for prefecture maintenance costs at State-built facilities, because workers were allotted to operate land improvement facilities in shift work schedule so that they should take time off according to their terms of employment although they did not need to work on their holidays. However, holiday allowances for workers were added to estimate direct personnel expenses for the workers. As a result, the amount for outsourcing contract was relatively high.
(1 case; 11.35 million yen)
- The objectives of subsidies for a project for promoting the introduction of a traceability system were not achieved because only a small part of the introduced equipment was installed and system operation was halted, leaving the installed equipment unused, most of which were removed.
(1 case; 56.68 million yen)
- The objectives of subsidies for a project for promoting the introduction of a traceability system were not achieved because a system that was planned to be operated in conjunction with the system introduced through the subsidy program was not developed as planned. As a result, the operation of the system eligible for the paid state subsidy was terminated.
(1 case; 8.73 million yen)
- The objectives of subsidies for a project for promoting the introduction of a traceability system were not achieved. Because the rice price etc. were not adjusted among the members,

operations were terminated without completing any sales of rice using the system. As a result, the equipment introduced was not used.

(1 case; 1.49 million yen)

- Regarding the subsidies for special measures to upgrade food industry functions, new brewing equipment to make SHOCHU, a type of Japanese distilled liquor, made from vegetables was not installed during the subsidy fiscal year and the project was not implemented. Therefore, the project was not eligible for the subsidies.

(1 case; 2.86 million yen)

- The construction objectives of restoration and soil saving works were not achieved and there was a possibility that function of the steel earth retaining works to control the slip of unstable earth and sand would fail, because reliable measures for prevention of filler outflow were not considered in designing steel earth retaining works and the design was inappropriate.

(1 case; 6.56 million yen)

- Regarding a fishing port facility disaster recovery project, the required level of safety of the quay surface was not secured, because stress against wave force was not calculated in designing a breakwater quay surface and the design was inappropriate.

(1 case; 2.42 million yen)

- Regarding a model rural village integrated construction project, vehicles were unable to use the road, and the road terminus was linked with the town road by passing through town-managed play ground whose the gateway was kept locked, because extent works for a local road to link with the starting point of a rural road built as part of a road network program were not completed. As a result, the objectives of the subsidies were not achieved.

(1 case; 98.88 million yen)

- Regarding the subsidies for a farmland information management system development project, the project was not executed during the subsidy project fiscal year, because the municipality did not select an entity to which data input would be outsourced. Therefore, the project was not eligible for the subsidies.

(1 case; 6.68 million yen)

- The objectives of subsidies for an agricultural land use adjustment special project were not achieved. Because the responsible entity did not identify the information necessary for the farm operation outsourcing support system, no information was input. As a result, the system was not utilized.

(1 case; 3.44 million yen)

- Regarding a project for management capacities improvement facilities construction, the amount of the tax credit for the consumption tax on subsidized purchases was not returned to the State, although it should have been done so.
(1 case; 6.05 million yen)
- Regarding a livestock breeding environment integration and construction project, the required level of safety of the fermentation facility was not secured, because the design was inappropriate, that is, the strength of the main reinforcing bar to be used for the facility was underestimated and the load from livestock waste was mistakenly underestimated when designing the fermentation facility.
(1 case; 62.32 million yen)
- The project expenses eligible for subsidies for an international forestry cooperation project were overpaid because personnel expenses were calculated by including days when employees were engaged in other activities and charges for computer use were calculated without using the actual amount of expenses required for the project.
(1 case; 73.59 million yen)
- Regarding a project to dispose of unnecessary fishing vessel and fishing equipment by providing subsidies to individuals who scrapped and disposed of fishing boats and fishing equipment, subsidies to mitigate the burden on remaining fishery operators were delivered even though the remaining fishery operators did not actually bear any financial burden, which was a requirement for the subsidies.
(1 case; 250.67 million yen)
- Regarding the fishery product safety measure projects and fishery cooperative-related organization and activities reform promotion projects, subsidies were overpaid because subsidy amounts were calculated in excess of the subsidy percentages prescribed by subsidy guidelines, and project expenses eligible for subsidies were overpaid because expenditures for which the cooperatives had not pay themselves were included.
(1 case; 3.52 million yen)

Ministry of Economy, Trade and Industry

- Regarding the subsidies to support the reform of the management of small and medium-sized companies, project expenses eligible for subsidies were overpaid because machinery and equipment purchase expenses that the companies had not incurred were included in project expenses eligible for subsidies and sub-projects ordered before the decision to provide subsidies were included in the project.
(10 cases; 60.21 million yen)

- The required level of safety was not secured and the purpose of the works of a project for region setting up power source was not achieved. Because no studies were conducted of the bearing capacity against shear force occurring along joints connecting the main pillar and beams in the playroom structure in designing the nursery school to be built, and lumber with a sectional area smaller than the given measurements was used for bracing composing the bearing walls in constructing the structure, the design and construction work were not appropriate.
(1 case; 276.59 million yen)
- Regarding a project for developing the technology for streamlining the use of energy, the amount of the tax credit for the consumption tax on subsidized purchases was not returned to the State, although it should have been done so.
(1 case; 9.77 million yen)

Ministry of Land, Infrastructure and Transport

- Subsidies for public housing rents were overpaid because the rents for neighboring houses, which formed the basis for the calculation of the basic subsidy, were overestimated or because the tenant's basic share, the amount of which was to be deducted from the basic subsidy, was underestimated.
(10 cases; 80.78 million yen)
- Although, in designing the PC-wall forming the bridge abutment foundation work for town redemarcation project, A-type PC-wall's numerical values should have been used as the values for effective pre-stress and for permissible bending tensile stress during an earthquake, B-type numerical values higher than the A-type's were mistakenly used, and the design was inappropriate. As a result, the required level of safety for bridge abutment and others was not secured.
(1 case; 35.51 million yen)
- Regarding a road disaster prevention project, the construction works expenses were excessive. Although "road improvement works" should have been applied to new slope works construction for the project the work items to use for calculations such as the common temporary facilities expense ratio, "road maintenance works" was selected mistakenly to use for calculation of the common temporary facilities expense ratio.
(1 case; 3.12 million yen)
- Regarding a project for reconstructing roads, the bridge collapse prevention mechanism was mistakenly omitted in designing the bridge collapse prevention system, and the design was not appropriate. As a result, the required level of safety for the bridge superstructure was not

secured.

(1 case; 22.73 million yen)

- Regarding an emergency project for constructing a local road, the box culvert was settled unevenly, gaps occurred in the joints of the water channel in the box culvert, and earth and sand under the pavement was washed out of the joint gaps in the channel when the water flowed through the box culvert, because the boring survey required in designing the base portion of the box culvert was not performed. As a result, there is a possibility for the box culvert's functions as a water channel and agriculture water route to be damaged, and the objectives of the works were not achieved.

(1 case; 14.58 million yen)

- Regarding a harbor improvement and repair project, the State subsidies were overpaid because the interest payment amount was excessively calculated by mistake in paying costs required for the port road as part of compensation for extinguishment of fishing rights in the prior fiscal year.

(1 case; 9.16 million yen)

- Regarding a local road grant project, even though it was clear that placement of the main reinforcing bars for the bottom of the piers did not satisfy the design requirement in designing the bridge piers, bar arrangement drawing was prepared based on this design, and the design was inappropriate. As a result, the required level for safety of bridge piers was not secured.

(1 case; 15.47 million yen)

- In calculating the common temporary facilities expenses ratio for anti-freezing agent spreading works for a snow clearing project, the maximum common temporary facilities expenses ratio value was applied by assuming each operation comprising the works would be completed in one day, even though it should have been calculated by assuming the entire works extending over several months would be considered as one project. As a result, the construction cost was relatively expensive.

(1 case; 2.17 million yen)

- Regarding an urban park project, reinforcing bars with a diameter smaller than the size assumed to be safe in the design calculation for the main reinforcing bar arrangement on the lower side of the toe plate was placed when the retaining wall bar arrangement drawing was prepared, because the design was inappropriate. As a result, the required level for safety of a retaining wall was not secured.

(1 case; 16.22 million yen)

- Regarding a project for street construction, the seismic load was calculated using an incorrect design horizontal seismic coefficient when the displacement restriction mechanism for the bridge was designed, because the design was inappropriate. Therefore, the required level for safety of the bridge superstructure was not secured.
(1 case; 23.07 million yen)
- Regarding a public drainage project, the interval between the main reinforcing rods arranged on the upper surface of the corner components mistakenly became twice the distance of the interval required for safety when the reinforcing bar arrangement for the bottom plate of the discharge tank was designed, because the design was inappropriate. Therefore, the required level for safety of the discharge tank was not secured.
(1 case; 14.01 million yen)
- Regarding an urban drainage project, the interval between the main reinforcing rods arranged on the lower surface of the cap plate and upper surface of the base mistakenly became twice the distance of the interval required for safety when the box culvert reinforcing rods arrangement was designed, because the design was inappropriate. Therefore, the required level for safety of the box culvert was not secured.
(1 case; 3.95 million yen)
- Subsidies for public housing rents were overpaid because the number of residents whose income exceeded the standard level was underestimated due to the application of the wrong standard level.
(1 case; 3.05 million yen)
- Regarding a project for reconstructing a road, compensation for moving buildings and other facilities was overpaid because the compensation included the consumption tax. When a tax credit was applicable to the consumption tax on purchases, the consumption tax should not be included in the compensation.
(1 case; 4.74 million yen)

Ministry of Environment

- The objectives of subsidies for a carbon dioxide emissions control project was not achieved. Because the generated by the small wind-power generator installed was less than electricity consumed, carbon-dioxide emissions were not reduced.
(1 case; 185.00 million yen)

Promotion and Mutual Aid Corporation for Private Schools of Japan

- Subsidies for operating expenses at private universities were overpaid because the amount of the subsidies was calculated based on the materials submitted by the academic

corporations that included data such as the number of students who were not eligible for special measure.

(2 cases; 2.89 million yen)

Agriculture and Livestock Industries Corporation

- A project to expand and promote the use of dairy farm helpers was not implemented because the subsidies had not been delivered to the dairy farm managers who used the helpers were not delivered.

(1 case; 11.27 million yen)

(8) Illegal acts (5 cases; 37.42 million yen)

< Embezzlement >

Cabinet Office (Defense Agency)

- While engaged in preparing checks, a self-defense official of the Maritime Self-Defense Force embezzled cash by converting into cash with the accounting organ's seal without permission.

(1 case; 2.24 million yen)

Ministry of Health, Labor and Welfare

- An employee prepared fictitious expenditure-related documents by having a supplier to prepare false bills while engaged in consumables purchases, and embezzled part of the money that had been transferred to the supplier's bank account.

(1 case; 8.24 million yen)

Ministry of Land, Infrastructure and Transport

- An employee of a District Transport Bureau created checks based on payment approval forms that padded amounts to be paid to part-time employees while engaged in preparing checks as an advance fund payment officer's aide, and embezzled the money by cashing the checks.

(1 case; 4.47 million yen)

- An employee of River Bureau Office caused losses to the State by ordering fictitious service and receiving cash vouchers for amounts corresponding to the fictitious payment amounts while engaged in clerical works such as orders for taking photographs of structures.

(1 case; 2.49 million yen)

Nippon Hoso Kyokai (NHK: Japan Broadcasting Corporation)

- An employee embezzled the money by pretending to have assignments that required business trips and by having the corporation transfer travel expenses to conspirator's bank

accounts while engaged in clerical work related to applications for payment of travel and other expenses at a headquarter and a broadcasting station.

(1 case; 19.95 million yen)

(9) Others (2 cases; 23.33 million yen)

< Improper payments such as contributions >

Ministry of Land, Infrastructure and Transport

- Assessed contributions related to activities to monitor ground operations of aircraft were overpaid because amounts were calculated including monitoring time that was not eligible for contributions.

(1 case; 14.01 million yen)

National Institute of Information and Communications Technology

- Project expenses for a research and development project to promote expanded communications and broadcasting services for senior citizen and handicapped individuals were overpaid. Although outsourcing expenses paid were less than the amount in the results report, the Institute's assessment and confirmation of the payments were inadequate.

(1 case; 9.32 million yen)

3. Improprieties unrelated to revenues or expenditures (36 cases; 844.63 million yen)

Ministry or agency	Property	Illegal acts	Total
Japan Post	Cases	Cases 35	Cases 35
National Agency for Automotive Safety and Victims' Aid	1		1
Total	1	35	36

(1) Property (1 case; 91.17 million yen)

< Objectives of acquisition not achieved >

National Agency for Automotive Safety and Victims' Aid

- Although nuclear medicine diagnostic imaging equipments for the treatments of automobile accident patients was purchased using investments from the State, it had been unused and the objectives of its acquisition was not achieved. Even though the equipments had not been used to treat hospitalized patients for five years after the purchase, no measures to achieve effective use of the equipments, such as using them for examinations of outpatients were implemented and the appropriate management to maintain the equipment's functions was

not performed.

(1 case; 91.17 million yen)

(2) Illegal acts (35 cases; 753.46 million yen)

< Embezzlement >

Japan Post

- Employees of post offices embezzled the money such as postal savings deposits accepted from depositors, funds kept by those post offices, and insurance premiums accepted from insureds.

(35 cases; 753.46 million yen)

Section 3. Presented opinions / Demanded measures (14 cases)

1. Cases for which the Board demanded rectification and measure for improvement measures under the provision of Article 34 of the Board of Audit Law (8 cases)

Ministry of Health, Labour and Welfare

- Calculation of the current market value of state properties contributed to the Readjustment of Facilities for insured persons and beneficiaries Organization

The Social Insurance Agency is responsible for establishing and managing pension welfare facilities and health and welfare facilities under government-managed health insurance. In light of the severe financial situation affecting the pension system in recent years, a decision to consolidate and rationalize these pension welfare, and health and welfare facilities was made, and their state properties were contributed to the Readjustment of Facilities for insured persons and beneficiaries Organization established as Independent Administrative Agency in October 2005. Furthermore, the decision was made to value the amount of the investment contributed by the government at the current market value as of the date when the Organization was established. However, when the Agency calculated the current market value of the state properties invested in the Organization, the Agency depreciated art works, which should have been non-depreciable assets, to their residual value of 10 % assuming that their assets' durable life had already passed. Therefore, the current market value was underestimated and as a result, the amount of the government investment in the Organization and the amount of capital on the Organization's financial statement were not shown correctly. Therefore, the Agency should correct the errors related to the current market value as indicated in the opinion presented by the Board and calculate the proper amounts, and take measures such as receiving a reevaluation by an evaluation committee based on the corrected current market value amount, and revise the amount of the government investment to the proper amount.

(Improper amount: 134.16 million yen)

Japan Expressway Holding and Debt Repayment Agency, East Nippon Expressway Co., Ltd, Metropolitan Expressway Co., Ltd., Central Nippon Expressway Co., Ltd, West Nippon Expressway Co., Ltd, Hanshin Expressway Co., Ltd, and Honshu-Shikoku Bridge Expressway Co., Ltd

- Asset succession and evaluation accompanying privatization (7 cases)

When the Board conducted audit on the assets succeeded from the highway-related public corporations to the Agency and expressway companies at the time of their privatization, it found that the values of assets taken over were over- or under-estimated, that the assets were improperly succeeded between the Agency and the expressway companies and that the relations of rights to use land between the Agency and the expressway companies had been tangled. Therefore, the Agency and the expressway companies should take measures to correct the asset values, ensure that the assets should be succeeded to appropriate entities and prepare financial statements that report accurate asset values, and create systems to appropriately handle the administration for account settlement and asset management to ensure that new assets to be acquired in the future also should be properly understood and managed.

(Improper amount: Total 13,446.12 million yen)

2. **Case for which the Board demanded rectification and measures for improvement under the provision of Article 34 of the Board of Audit Law and presented opinions on improvement under the provision of Article 36 of the Board of Audit Law (1 case)**

National Museum of Art

- Proper negotiated contracts signed by the National Museum of Art

The Board found that when the National Museum of Art purchased goods and executed contracts such as services outsourcing contracts, negotiated contracts accounted for over 95% of all contracts which could be signed under competitive bidding condition because the museum set the upper limit amount allowed for negotiated contract at 10 million yen, and that even though its upper limit amount was later reduced to five million yen, it was not a sufficient price level for ensuring competitiveness. Furthermore, even though the Museum could have compared several estimates obtained from the multiple firms, the Museum did not fully review the estimates by obtaining an estimate from only one firm for many cases of negotiated contracts. Therefore, the National Museum of Art should (1) review its method of setting the upper limit amount allowed for negotiated contracts so that the amount level is appropriate, taking account of the comparison between efficient implementation of activities and disadvantages that cannot obtain the benefits of competition in case of negotiated contracts, and (2) sufficiently review the past records of similar contracts at the Museum to determine whether several firms from which the museum can obtain estimates exist, and properly obtain estimates according to the principles of accounting rules.

(Background amount: 1,511.85 million yen (total amount of negotiated contracts of lower amounts than the allowed upper limit amount which should have been revised))

3. Cases for which the Board presented opinions on improvements or demanded measures for improvement under the provision of Article 36 of the Board of Audit Law (5 cases)

(1) Cases for which the Board presented opinions on improvements (4 cases)

Cabinet Office (Defense Agency)

- Retirement benefits system for fixed-term Self-Defense Force officials

When the Board audited the employment conditions of fixed-term Self-Defense Force officials of the Ground Self-Defense Force who had received retirement allowance, it found full retirement allowance were paid without reducing the retirement benefits for periods such as child-care leaves when they had not been engaged in their assignments, resulting in disparities with fixed-term Self-Defense Force officials who had worked for the entire period of their appointment. The Board found that the same problem existed at the Maritime and Air Self-Defense Forces. Therefore, the Defense Agency should implement appropriate measures concerning the retirement benefits system for fixed-term Self-Defense Force officials to calculate proper retirement benefits, taking into consideration periods when they are not engaged in their assignments.

(Improper amount: 16.10 million yen)

Ministry of Education, Culture, Sports, Science and Technology

- Segment information concerning hospitals affiliated with national university corporations

The Board audited as to whether amounts for operating costs, operating income and the attributed assets described in the segment information concerning affiliated hospitals that is being disclosed as financial statements of national university corporations were fully identified and described in a uniform manner. As a result, it found the accounting details for operating costs, operating revenue and the attributed asset disclosed as segment information concerning affiliated hospitals were recorded differently by each national university corporation. Concerning personnel expenses for professors who provide medical care at affiliated hospitals, for example, 14 national university corporations were accounting for the personnel expenses only for professors assigned to the affiliated hospitals, 9 national university corporations were accounting for the personnel expenses of ‘ ’ with a part of the personnel expenses such as allowances for professors assigned to departments such as the Faculty of Medicine (individuals engaged in diagnosis and treatment), and 2 national university corporations were accounting for the personnel expenses of ‘ ’ with all personnel expenses for individuals engaged in diagnosis and treatment. The Board recognized comparison of financial information required by the national university corporation accounting standards has not been sufficiently secured. Therefore, the Ministry

of Education, Culture, Sports, Science and Technology should actively disseminate the relevant information to ensure national university corporations apply uniform administration and proper procedures including the preparation of guidelines, for example, and further promote proper and sound accounting practices at national university corporations in the future.

(Background amount: 1,875,546.80 million yen (Amount of segment information disclosed without being recorded uniformly))

NTT East Corporation and NTT West Corporation

- Installation and management of Type 1 public telephones (2 cases)

The Board audited as to whether installation locations of Type 1 public telephones for the purposes of securing social safety and a minimum means of outdoor communication regardless of the level of public telephone use were efficient and, whether Type 1 public telephones fulfilled their roles effectively. As a result, it found there were some meshes where multiple Type 1 public telephones had been installed in the standard area mesh or half area mesh of each prefecture in which one Type 1 public telephone unit should be installed as a standard, while there were a considerable number of meshes where only Type 2 public telephones were installed or no public telephones were installed at all. It also found that their installation conditions did not provide the 24 hour service of Type 1 public telephone available for the general public. Furthermore, the Corporation provides only the number of Type 1 public telephones installed in each prefecture, not other information. Therefore, in order to efficiently implement service for Type 1 public telephones and to ensure the phones fulfill their roles effectively, NTT East and NTT West should consider the proper installation arrangements of Type 1 public telephones etc, taking into account their uses, review their installation locations, and disclose more information concerning the public telephones.

(Background amount: NTT East Corporation: 4.4 billion yen; NTT West Corporation: 2.9 billion yen (FY2005 operating expenses related to Type 1 public telephones))

(2) Cases for which the Board demanded measures for improvement (1 case)

Ministry of Agriculture, Forestry and Fisheries

- Amount of funds for land improvement liability under the comprehensive repayment measures for land improvement liability

The Ministry of Agriculture, Forestry and Fisheries uses the Japan Land Improvement Funding Association as entity for implementing comprehensive repayment measures for land improvement liability, and prepares land improvement liability funds for the Association and provides subsidies for interest on refinancing funds for eligible land

improvement zones for which redemption of the borrowed funds related to the land improvement liability is difficult. Between FY1990 and FY2000, State subsidies delivered to the Associations totaled 200 billion yen, and the outstanding balance of funds as of the end of FY2004 exceeded 165.8 billion yen. On the other hand, by estimating the interest subsidies and other amounts delivered from the Association since FY2005 to be over 33 billion yen, the Board found the amount of funds exceeded the fund needs. Therefore, the Ministry of Agriculture, Forestry and Fisheries should identify the amount of funds corresponding to fund needs, and take measures such as reducing the amount of funds in case a large amount of excess funds is expected to occur.

(Background amount: 165.8 billion yen (State subsidies related to the outstanding balance of funds for which the funding amount does not correspond to fund needs))

[This case was reported to the Diet and Cabinet on July 13, 2006 in accordance with the provision of Article 30-2 of the Board of Audit Law.]

Section 4. Measures taken (41 cases)

Courts

- Provision of commuting allowances at courts

Commuting allowances for employees and others who commuted by automobile were overpaid since routes and distances were not properly recognized and these were not checked adequately after the fact. That is because the standards concerning routes and distances prescribed by law were not fully understood.

(Improper amount: 27.40 million yen)

Cabinet Office (National Police Agency)

- Operation of a counterfeit credit card analysis system

Although the operating conditions of a counterfeit credit card analysis system to strengthen efforts against counterfeit credit card crime were remarkably low, the system continued to be operated without any change. Because the real operating conditions of the system had not been sufficiently recognized, comprehensive review of the system had not been implemented, including review as to whether or not the system continued to be operated.

(Improper amount: 912.86 million yen)

Cabinet Office (Defense Agency)

- Procurement of eating utensils for Ground, Maritime and Air Self-Defense Forces

When procuring eating utensils used at Ground, Maritime and Air Self-Defense Force bases and posts, Defense Agency did not sufficiently consider unification of the specifications for eating utensils of each branch of the Self-Defense Forces and shared use of tableware. As a result, each Force prepared separate specifications contracted separately. Therefore, the

procurement was not conducted economically.

(Improper amount: 58.81 million yen)

- Travel coupons used for military unit transportation

Travel coupons to procure airline and other transportation tickets used for the transportation of military units and personnel were purchased by the Maritime Self-Defense Forces at the end of the fiscal year in large quantities that could not be used during the said fiscal year and carried forward to the subsequent fiscal year, and the travel coupons were used for purposes such as ordinary official travels for which expenses should have been paid from the budget items for official travel expenses. It resulted in inappropriate budget management condition.

(Improper amount: 60.61 million yen)

- Application of discount service under the INMARSAT service contract

The INMARSAT service used by the Maritime Self-Defense Force escort ship was not guided sufficiently by the Maritime Staff Office to ensure economical payments for INMARSAT service. As a result, discount service concerning charges for telephone calls and other uses was not applied, and the charges were uneconomical.

(Improper amount: 14.82 million yen)

Ministry of Internal Affairs and Communications

- Utilization of unused facilities due to municipal mergers

When facilities etc. constructed under programs such as the Projects for the Development of Basic Facilities for Regional Intranet were no longer able to be used for their original purpose due to municipal mergers, no provisions had not been made for utilizing the facilities and the entities managing the facilities did not recognized them sufficiently. As a result, the facilities had not been used and utilized efficiently.

(Improper amount: 92.50 million yen)

Ministry of Education, Culture, Sports, Science and Technology

- Calculation of additional unit cost of subsidies for ordinary expenses of private high schools

Subsidies for ordinary expenses to private high schools were over-calculated. Because details of the requirements for additional unit cost for subsidies, shown by payment guidelines and allocation notifications were not always clear, prefectures reported the number of students including students at private schools that did not take measures corresponding to requirements for subsidies and the Ministry miscalculated the number of students eligible for subsidy.

(Improper amount: 4,163.90 million yen)

- Accounting of subsidies for scientific research expenses

Since research institutions managing subsidies for scientific research expenses had control problems such as inadequate systems to control the paperwork for delivery inspections of goods purchased for research purposes, there were discrepancies of more than 30 days between the dates on the delivery statements (copied) retained by suppliers and the dates on the delivery statements managed by the research institutions. As a result, some goods purchased for research were delivered out of the subsidy period and were not eligible for subsidies, and the accounting of subsidies for scientific research expenses differed from actual facts.

(Improper amount: 218.74 million yen)

(Background amount: 1,155.64 million yen (amount of State subsidies delivered to research institutions that did not make proper delivery inspections))

Ministry of Health, Labour and Welfare

- Utilization of other laws and measures in the livelihood protection system

Because the municipalities did not receive sufficient guidance concerning investigations of pension recipients' qualifications and application of public assistance medical care based on Article 32 of the Mental Health Law when implementing public assistance, the municipalities applied public assistance to eligible pension recipients who did not receive their benefits due to the billing procedure uncompleted and to person who did not receive public hearing medical care even though they were eligible. As a result, the utilization of other laws and measures concerning receipt of pensions and public assistance medical care was not adequate and payments of the state subsidy for public assistance were not proper.

(Improper amount: 300.40 million yen)

- Collection of loans by the Japan Labour Health and Welfare Organization

When the Ministry of Health, Labour and Welfare designated the Japan Labour Health and Welfare Organization to manage and collect loans provided by the Labour Welfare Corporation, the Ministry did not give appropriate instructions for the times when collected loans were to be transferred to the State treasury. As a result, collected loans remained unpaid to the State treasury.

(Improper amount: 78.05 million yen)

Ministry of Agriculture, Forestry and Fisheries

- Implementation of direct payment system for mountainous villages

When the direct payment system for mountain area was implemented, the municipalities did not fully understand the details of the system and examined local verification of the implementation status of agricultural production activities inadequately. As a result,

agricultural land that was ineligible for subsidies was included in land used for the agricultural agreement, and agricultural production activities assumed to be implemented under agricultural agreements were not carried out appropriately. Accordingly the appropriate and effective implementation of the system was not secured.

(Improper amount: 104.15 million yen)

- Facilities site prepared under the comprehensive rural area development project

Regarding the facilities' sites for constructions of public facilities that were prepared under a farming village development project, the public facilities were not constructed at the prepared facilities' sites because the municipalities did not examine the certainty of construction of the public facilities sufficiently at the time of preparing the project plan, and as a result the facilities sites remained unused and the effects of the project were not sufficiently realized.

(Improper amount: 123.83 million yen)

- Maintenance and preservation of farmland created under the agricultural land development project

Regarding the farmland created under an agricultural land consolidated project, prime farmland remained unused and was diverted to improper uses, and was not maintained and preserved in good condition and was not utilized effectively because the municipalities did not sufficiently recognize the existing conditions and farmers' intentions to eliminate unused farmland, and did not appropriately report to the prefectures concerning farmland diverted to improper uses.

(Improper amount: 1,291.61 million yen)

- Calculation of outsourcing project expenses and procedures for goods /services procurement agreements under the project of fostering and consolidating successors for the forestry industry

Because the realities of field training and the implementation procedures for would-be forestry-engaged workers training projects were understood insufficiently, outsourcing project expenses for field training implemented on for-profit business land were calculated using standard prices established by assuming field training on not-for-profit business land, and remuneration for lecturers when project members served as lecturers during field training was calculated using a standard price established taking into account the pay level of field monitoring staff of Forestry Cooperative. In addition, no accounting provisions concerning procedures for goods and services procurement agreements were prepared at National Federation of Forest Owners Co-operative Associations, which was not appropriate to ensure proper and economical implementation of the subsidy project.

(Improper amount: 49.11 million yen)

(Background amount: 2,290.39 million yen (state subsidy for field training implemented on for-profit business land and state subsidy for goods and services procurement agreements, of which procedures was inappropriate))

- Implementation of the farmland information management system development project and update of the information for utilizing the farmland information management system

Because expenses eligible for state subsidy under the farmland information management system development project were not clarified, the subsidy project was implemented inappropriately, such as including expenses ineligible for the subsidies in the project expenses. The information on farmland, farmers and other data input into the system was not updated appropriately at the proper time.

(Improper amount: 122.79 million yen)

(Background amount: 1,119.83 million yen (amount equivalent to state subsidies for development of a farmland information management system into which input information was not updated appropriately at the proper time))

- Implementation of meat distribution and consumption improvement project for school meals

Regarding the school lunch meat distribution and consumption improvement project, review was not sufficient despite the change in the environment affecting school lunches, including the fact that rapid increases in imported beef prices supposed with the liberalization of beef imports did not occur, that the quantity of imported beef supplied from organizations such as School Lunch Association to schools providing lunches to students declined and that the proportion of imported beef in the total quantity of all foods for school lunches rapidly became low. As a result, the project was not reviewed, including consideration of termination of the project.

(Improper amount: 165.60 million yen)

Ministry of Economy, Trade and Industry

- Calculation of outsourcing project expenses for research and study

Regarding the calculation of outsourcing project expenses for research and studies, the actual expenditure amounts of the outsourced companies and the actual work of employees was not reflected in the calculation because procedures such as the calculation of personnel expenses for seconded employees whose wages had been paid by another organization, or guidelines for work diary records etc. when employees are engaged in other activities simultaneously were not explained clearly by the Ministry of Economy, Trade and Industry. As a result, personnel expenses were over-calculated.

(Improper amount: 75.17 million yen)

Ministry of Economy, Trade and Industry and the Bank of Japan

- Foreign exchange transaction fees when converting foreign currency collected funds under the external trade reinsurance project into that denominated in Japanese yen

The Ministry of Economy, Trade and Industry did not sufficiently consider the Japanese yen conversion rate for foreign currency-denominated collected funds convert foreign currency-denominated collected funds etc. for the external trade reinsurance project into that denominated in Japanese yen, and the Head office Bank of Japan and the Ministry did not mutually cooperate to examine the foreign exchange rates to use for exchanging foreign currency-denominated income collected by subrogation right. into that denominated in Japanese yen. As a result, foreign exchange transaction fees were not reflected by the market transaction practices and were not economical.

(Improper amount: 276.92 million yen)

Ministry of Land, Infrastructure and Transport

- Estimate of expenditures for digital conversion of the land registry

Regarding the estimation of the cost for digital conversion of the cadastral registry, since the information recorded electromagnetically in the fixed assets tax ledger and other records had been lent to contractors by electronic media, municipalities should have estimated the cost by using the low-cost unit prices in digital format. However, they did not sufficiently recognize the details of digital converting, and were not clearly informed that they could apply the low-cost unit prices in digital format to estimate the cost. Therefore, they estimated the cost by applying the analog format unit price. As a result, cost was overestimated.

(Improper amount: 56.90 million yen)

- Land on which public housing was not constructed even though it had been acquired by receiving subsidy

Regarding the sites for public housing that were acquired with the state subsidies for public housing emergency supply promotion project, the local governments did not review the plans based on housing circumstances, and the Ministry of Land, Infrastructure and Transport did not recognize the construction status. As a result, the public housing was not constructed even though the scheduled date to begin construction works in the project master plan had already passed.

(Improper amount: 7,091.78 million yen)

- Calculation of subsidies for construction expenses of facilities for smoother public transportation

Regarding the calculation of the state subsidies for construction cost of facilities for

smoother public transportation, on deducting the regular vehicle price from the cost eligible for subsidies, the consumption tax amount should be included in the regular vehicle price if the cost eligible for subsidies includes the consumption tax amount. However, since the operations policy did not clearly specify it, public bus companies deducted the regular vehicle price exclusive of consumption tax amount from the expenditures eligible for subsidy that included the consumption tax amount. As a result, subsidies were overpaid.
(Improper amount: 123.58 million yen)

- Estimate of purchase cost of anti-freezing admixture used in the snow-removal work

Regarding estimating purchase expenses for anti-freezing admixture used in snow removal works, prefectures could have understood market prices more adequately if they had decided unit prices by conducting a special investigation. However, they decided unit prices based on estimates received from private companies and did not sufficiently examine the market prices. As a result, the cost to purchase anti-freezing admixture was overestimated.
(Improper amount: 131.90 million yen)

- Depth of underground facilities such as conduits installed for runways

When removal and re-installation work of conduit and other facilities was conducted as part of runway repair works using cut and replacement works, the depth of underground facilities such as conduits re-installed was inappropriate in the design. Therefore, due to the inappropriate and uneconomical design, removal and re-installation work will have to be done again when the runways are to be repaired in the future.
(Improper amount: 107.90 million yen)

Ministry of Land, Infrastructure and Transport and Ministry of Health, Labour and Welfare

- Estimate of the cost to receive services including the provision of facilities required for Port and Harbor EDI System operations (2 cases)

When the cost to receive services such as the provision of facilities required for operating the Port and Harbor EDI System used for making electronic applications during various procedures at ports and harbors was estimated, the recent conditions including the fact that this service was provided for general customers by professional companies were not recognized sufficiently, and the market price for this service was not appropriately understood. As a result, the cost was overestimated.
(Improper amount: Total 21.00 million yen)

Government Housing Loan Corporation

- Return of premiums following special fire insurance cancellations

When writing-off claims of loan receivables, the Government Housing Loan Corporation

could have allocated premium refund of cancellation of special fire insurance which covered the collaterals such as houses voluntarily sold by debtors to remaining claims. However, since it did not sufficiently understand the debt-collection procedures, it did not complete the cancellation of special fire insurance. As a result, claims of loan receivable for writing-off were not collected appropriately.

(Improper amount: 68.00 million yen)

Bank of Japan

- Accounting of travel expenses for using aircraft

Regarding the travel expenses for using aircraft, verification procedures such as confirming actual expenses with documents verifying airfares actually paid were not provided in internal rules. Therefore, even though employees traveling on business actually purchased discounted air tickets that differed from the travel expense payment, travel expenses were not adjusted properly. As a result, travel expenses were overpaid.

(Improper amount: 73.72 million yen)

- Fees for maintenance contracts for automatic bank note screening machines etc.

Regarding the maintenance fees for automated bank note machines, requirements to reduce the basic fee according to maintenance work results and the range of equipment to be maintained were not provided in the contract. As a result, the basic fee was paid without being adjusted for the other works performed by maintenance employees for long periods during daily maintenance work hours or for maintenance works of automated bank note examining machines in the charge-free maintenance period.

(Improper amount: 72.80 million yen)

The Shoko Chukin Bank

- Collection of fees for loan prepayment accompanying advanced redemptions

The fee calculation system did not have any functions to automatically apply calculation formulas and input calculation parameters when the Bank collected loan prepayment fees accompanying advanced redemptions. As a result, due to errors in applying calculation formulas or inputting calculation parameters, excess or deficiency occurred in fee collections, and fees were not collected properly.

(Improper amount: 60.96 million yen)

National Museum

- Recognition and accounting for tangible fixed assets

When preparing financial statements, the assets acquired through engineering works and lease assets based on finance lease transactions were not listed as tangible fixed assets on the balance sheet, and the design fees required to produce and acquire the assets were not

included in acquisition costs of the tangible fixed asset because the Museum did not sufficiently understand accounting transactions in accordance with accounting standards. As a result, the information disclosed in the financial statements was not correct.

(Improper amount: 200.26 million yen)

National Agriculture and Food Research Organization

- Estimate of labour expenses for operation, maintenance and management services of electrical equipment and machinery

When estimating labour expenses for operating, maintenance and management services for electrical equipment and machinery unit prices were not reduced appropriately for their rest time, and unit prices including allowances which should not have been used as the base for the late night surcharge were multiplied by the premium rate, because the Organization did not sufficiently recognize the engineers' actual activities, As a result, labour expenses were overestimated.

(Improper amount: 27.80 million yen)

National Agency of Vehicle Inspection

- Estimate of target price for periodic inspection of machinery and apparatuses for automobile safety inspection

Regarding estimating contract target prices for periodic checks of machinery and apparatuses for automobile examination, the expenses that contractors did not incur were included in the calculation of work unit price because the Agency did not sufficiently examine the estimate. As a result, the contract target prices for periodic checks were overestimated.

(Improper amount: 48.83 million yen)

Japan Railway Construction, Transport and Technology Agency

- Specifications for concrete used for construction works including excavated tunnels

Regarding the specifications for concrete used for cut tunnels construction works at the underground high-speed railways, decisions were made to use higher priced cement, even though it was acceptable to use blast furnace slag cement Type B for cut tunnels, and to use concrete with compression strength greater than required for the basic concrete for the inner surface of shield tunnels. As a result, the cost of concrete materials was overestimated.

(Improper amount: 41.70 million yen)

Japan Labour Health and Welfare Organization

- Management work of claims against business proprietors in the project for paying the unpaid wages

Regarding the implementation of project to reimburse unpaid wage, investigations to

confirm the status of assets held by bankrupt companies were not sufficient and the claims against bankrupt companies were terminated without internal approval because project guidelines for managing claims against companies which were recognized as virtually bankruptcy had not been prepared, As a result, management of claim was not appropriate.
(Background amount: 23,275.37 million yen (Balance of outstanding claims against bankrupt companies recognized by the head of the Labour Standard Inspection Office at the Organization as of the end of FY2005))

Organization for Small & Medium Enterprises and Regional Innovation, Japan

- Funds deposited in ordinary savings accounts

Regarding managing and investing general account (general accounting) funds, administrative standards for properly understanding the status of funds held in a timely manner and for accurately predicting fund revenues and expenditures had not been prepared, and the Organization did not create the system for sufficient communication and cooperation among departments responsible for fund management, each division and each branch. As a result, a large amount of funds compared with capital needs was always held in an ordinary savings account, and funds were not invested efficiently.
(Background amount: 21,946.71 million yen (Average balance of ordinary savings accounts holding a large amount in general account (general accounting)))

Urban Renaissance Agency

- Estimate of costs of molding flask construction for basic concrete including boundary blocks

Regarding the estimation of the costs for molding concrete to make foundation, the productivity standards for leveling base concrete form works should have been applied to the estimate because there is no difference between the form shape and construction realities for base concrete of boundary blocks and form works for leveling concrete in the base of retaining walls etc.,. However, since the Agency did not consider enough to reflect the construction realities in the estimate, the productivity standards for small structure form works were applied to the estimate. As a result, the costs for molding concrete were overestimated.
(Improper amount: 54.50 million yen)

Metropolitan Expressway Co., Ltd.

- Estimate of the cost of dust-proof processing in the maintenance work of the building sites

The cost of dust prevention works was overestimated because the actual construction conditions using machineries corresponding to site conditions such as dimension and shape were not reflected in the estimation.
(Improper amount: 23.30 million yen)

Japan Broadcasting Corporation (NHK:Nippon Hoso Kyokai)

- Recognition of installation situation of TV sets at offices

Regarding the conclusion of television subscription contracts with various entities, the television survey slips used as a means to recognize television receiver installation conditions were not kept for government and municipal offices and did not sufficiently provide the information because the division of responsibilities between the Corporate Marketing Center at NHK's head office and local broadcasting stations was not clear. Besides, the contract rate for entities such as hotel groups varied by district and by hotel group because nation-wide uniform efforts based on instructions from NHK's head office were not performed for hotels. As a result, television receiver installation conditions were not properly recognized at NHK.

(Background amount: 35 billion yen (Amount of estimated reception fee income from television subscription contracts with entities))

NTT East Corporation and NTT West Corporation

- Delivery service of devices and other equipments compatible optical fiber telephones to subscriber's homes (2 cases)

Because procedures for delivering devices to support optical fiber telephones and other equipments to subscribers' homes were not coordinated between the devices divisions and sales divisions, Cost effective deliveries corresponding to subscriber conditions were not accomplished. As a result, delivery cost for devices to support optical fiber telephones and other equipments were uneconomical

(Improper amount: Total 243.20 million yen)

University of the Air

- Outsourcing contracts for the work required for the administration of the University of the Air

When concluding outsourcing contracts, the University concluded the contracts based on single tendering considering that the character and purpose of the contract was not assumed to require competitive tendering. However, since the contractors did not have sufficient capacity to do the outsourced works, they made the majority of the outsourced works performed by subcontractors. As a result, the contracting procedure was not appropriate.

(Improper amount: 1,007.44 million yen)

Section 5. Special description (4 cases)

- (1) Delays in collection and receipt of property under application for payment-in-kind and its process after their receipts, and accumulation of unprocessed cases under the system for payment-in-kind of inheritance tax

When auditing process of property for which applications for payment-in-kind had been received at tax offices and local finance bureaus, the Board found that they accumulated unprocessed cases due to delays in process of payment-in-kind real estate and that they held many properties after long periods of time had passed due to delays in processing after receipt of real estate with rights and privately-owned stock included in payment-in-kind. Such conditions are linked to long-term delays in concluding inheritance tax payments processing, delays in opportunities to beneficially utilize or sell payment-in-kind properties as state properties after their receipts, and lead to the loss of fairness among taxpayers. Therefore the tax offices and local finance bureaus should ask individuals who apply for payment-in-kind and other concerned parties to understand the importance of prompt processing, and should seek to further promote processing aimed at prompt settlement, including appropriate progress management under the closer cooperation among the related departments in the future.

(Background amount: 502.8 billion yen (Total of the payment-in-kind real estate received, estimated amount to be received from real estate for payment-in-kind applications and book value of privately-owned stock received for payment-in-kind))

- (2) Necessity for appropriate grasp of the progress of road construction after outsourcing contracts when commissioning them to the railway companies

When road works are consigned to railway companies, road management entities are required to implement accounting transactions and budget implementation based on the national accounting system etc, and to discuss with railway companies concerning the details and costs of the works so as to appropriately understand the progress based on the “Transparency” Notification of July 2004 from Ministry of Land, Infrastructure and Transport (MLIT). When the Board audited payments of outsourcing expenses from road management entities to the railway companies for consigning the road construction work, it found (1) payments of outsourcing expenses for 336 of 1,039 cases audited did not correspond to the project progress required by the conditions of payments in estimate, for example, the amount of the first payment in estimate is 90% or more of the total outsourcing expense amount, (2) submission of materials to understand the consignment details, such as detailed design statements to understand the details of works and construction costs and investigation records of completed work to understand the progress were not adequate, (3) concerning consumption tax related to outsourcing expenses, amounts that should have been treated as non-taxable items were treated as taxable items, and (4) concerning calculation of consumption tax in the Road Improvement Special Account, non-taxable amounts ineligible for purchase tax credits were deducted, considering them as taxable amounts. MLIT should endeavor to take the necessary actions for such cases. Due to the long-standing practice, however, submission of the required materials from the railway companies was still inadequate. Therefore, on implementing the project of consigning road works, it is important

for MLIT to ask the railway companies to cooperate for submitting the records of completed work plan to make payments in estimate corresponding to the project progress and the required materials to clearly recognize the taxable amounts, by actively explaining the system of national accounts to railway companies so as to let them understand sufficiently. And thus, MLIT should follow appropriate accounting transactions, to secure the transparency of the project and to ensure efficient budget implementation.

(Background amount: 128.9 billion yen (Amount of national expenditures for road construction works outsourced from 150 road management entities to railway companies from FY2001 to FY2005))

- (3) Necessity for consideration of improving a use of parking lot due to a low-level use of toll parking lots constructed by road management entities

To address the growing demand for parking spaces and to ensure safe and smooth traffic flow on surrounding roads by eliminating illegal street parking in the central cities of local living areas, the Ministry of Land, Infrastructure and Transport (MLIT) is implementing financing and subsidy projects for road management entities constructing toll parking lots. The environment surrounding toll parking lots has changed remarkably, however, including the strengthening of measures against illegal road parking based on revision of the Road Traffic Law and the creation of the designated manager system for shared facilities based on the Local Autonomy Law. Therefore the Board audited as to whether toll parking lots were used effectively according to their purpose, how revenue and expenditure results particularly in financing projects had been because they could affect repayment plans of financed projects, and what measures road management entities had taken in response to the changes in the environment surrounding toll parking lots. The Board found that (1) at 73 toll parking lots out of 137 toll parking lots (construction-related loan amount 54.9 billion yen, subsidy amount 28.6 billion yen), the number of vehicles using the toll parking lots was low and less than 50% of the plan target, (2) revenues and expenditures had deteriorated and toll receipts did not even cover administrative and maintenance expenses, and (3) no efforts were made to provide detailed services that suited users' needs. Since the main reason for underutilized toll parking lots was a decline in the ability to attract customers due to large-scale store closings, it is difficult to improve the current situation of the use of toll parking lots by only the efforts of MLIT, and local public authorities. Therefore concerned parties such as the road management entities, transportation management companies, local business districts and parking lot users should work together to further promote the uses of toll parking lots. Moreover, because the environment surrounding toll parking lots administration has changed remarkably, it is necessary to understand these conditions adequately so as to take improvement measures to increase the use.

(Background amount: 83.5 billion yen (Total of the loans and state subsidies at 73 toll parking lots))

- (4) Necessity for improvement in management of Kansai International Airport to steadily redeem long-term interest-bearing debt and to establish a stable management base

The Kansai International Airport Co., Ltd. had long-term interest-bearing debt of approximately 1.0 trillion yen at the start of airport operations in 1994, and cumulative losses had mounted to 206.8 billion yen as of the end of FY2002. Because of this condition, the Government created a subsidy system to promote management improvements at the Company based on a mutual agreement with the Minister of Finance and Minister of Land, Infrastructure and Transport in 2002, and has paid a government subsidy of 9 billion yen annually since FY2003. In addition, based on the above agreement, the Company prepared a management improvement plan including measures to reduce operating costs and to increase revenues, considering the three-years from FY2003 to FY2005 as a period to focus on management improvements. Consequently, the Board audited the progress in achieving the management improvement plan and status of long-term interest-bearing debt redemption. As a result, the Board found that the revenue and expenditure outlook for FY2006 after completion of the management improvement period from FY2003 to FY 2005 showed difficulty achieving the objectives, even though the Company achieved its operating cost reduction objectives. Moreover, the reduction in long-term interest-bearing debt in FY2004 and FY2005 after introduction of the subsidy system was less than the projection when the system was introduced (Difference between the actual amount and projection amount for the reduction was 10.5 billion yen in FY2004 and 16.5 billion yen in FY2005), and the reduction of long-term interest-bearing debt based on the performance objective in the new medium-term plan the Company announced in April 2006 is also expected to fall below this projection. Therefore the Company should strive to achieve steady redemption of its long-term interest-bearing debt and establish a stable management base that does not rely on government subsidies etc., through steps such as (1) accurately understanding the status of debt redemption and working towards steady repayments after formulating a long-term interest-bearing debt redemption plan, (2) continuing to improve management, including efforts to increase revenues by developing new demand while cooperating with local authorities and to reduce expenditures based on a new medium-term plan and (3) enacting measures to complete necessary and indispensable facilities construction that has been deferred as part of its Phase Two construction while sufficiently assessing the demand trends.

(Background amount: 1,032.2 billion yen (Total balance of the Kansai International Airport Co., Ltd. long-term interest-bearing debt at the end of FY2005 and government subsidies paid from FY2003 through FY2005))

[This case was reported to the Diet and Cabinet on October 11, 2006 based on the provisions of Article 30-2 of the Board of Audit Law.]

Section 6. Special report to the Diet and the Cabinet (5 cases)

- (1) Land improvement burden charge spending under integrated redemption measures for land improvement burden charges (see page 73).
- (2) Revision of the bidding/contract procedures concerning expressway construction project

When the Board of Audit examined the revision of the bidding/contract system for expressway construction projects to be implemented by East Nippon Expressway Co., Ltd. and the four other expressway companies, which was implemented following a bid-rigging case for superstructure works for a steel bridge constructed by Japan Highway Public Corporation, the Board made the following findings.

- (1) After the revision, the more bidders participated in the bidding procedures, the lower the contract prices became. Moreover, although a decrease in the number of bidders was noted after the revision, bid-participation qualification requirements still remain the same.
- (2) The comprehensive evaluation bid system is expected to be conducted on more contracts, but is substantively at the trial stage.
- (3) A review on the construction cost breakdown sheets is recognized to be effective in securing fair bids but are made on a simple basis not so detailed.
- (4) The establishment of project order units has been more flexible about the period of the constructions because there is no more restriction on the construction periods since the privatization of Japan Public Highway Corporation.

Therefore, in order to revise the bidding/contract system, accurately implement its detailed plan and make the process more effective, each company should:

- (1) seek to make bids even more competitive while giving sufficient consideration to securing proper construction, and study on revising the bid-participation qualification requirements;
- (2) seek to consider the implementation procedures both to achieve an increase in the number of the contracts subject to the comprehensive evaluation bid system and to acquire the effects in conformity with the purpose for introduction of the system;
- (3) study a more effective utilization procedure for construction cost breakdown sheets in consideration of the clerical burden; and
- (4) study more flexible and more economical alternatives when establishing an order issuance unit to take maximum advantage of privatization, while considering actual project conditions.

Furthermore, five expressway companies are required to take necessary measures to recover the damages caused by the bid-rigging cases by way of claiming the penalties, if not duly claimed, on a timely and appropriate basis.

(3) Implementation of bids and contracts for construction projects such as airport facilities at Narita International Airport Corporation

In December 2005, Narita International Airport Corporation was affected by a criminal case in which two officers were arrested and prosecuted for obstruction of a competitive bidding for a power substation construction works. In response to that case, the corporation disclosed “Improvement Plan for Works Project Order”. The Board of Audit examined the implementation of bids and contracts for works for construction of airport facilities based on these conditions, and found that the Corporation established the bid-participation qualification which required the bidders for power receiving and transformation facilities to produce the main facilities on an in-house production basis, resulting in the limited numbers of the bidders. Furthermore, there were no backup materials for the discount rates used for estimating the prices for power receiving and transformation facilities, and it was impossible to confirm whether discount rates reflected current market prices. Finally, the penalty clause had not been written in the contract agreements until the rationalization plan described was implemented in January 2006.

Therefore, the Corporation should:

- (1) resolutely implement its rationalization plan;
 - (2) claim the damages for the three projects related to the incident described above with the total contract amounts of 765.76 million yen;
 - (3) respond in a timely and appropriate manner to the notifications issued by the government concerning matters such as contract administration, as well as seek to further broaden competition participants by means such as revising bid-participation requirements to improve competitiveness when soliciting bids for power receiving and transformation facilities; and
 - (4) study estimation procedures for calculations of equipment costs for power receiving and transformation facilities works that are included in approximate price estimation that will enable the Corporation to further reflect current market prices, by means such as regularly requesting price checks from a pricing research company.
- (4) Necessity for improvement in management of Kansai International Airport to steadily redeem long-term interest-bearing debt and to establish a stable management base (see page 87)
- (5) Financial conditions at Fiscal Investment and Loan Program (FILP) entities after FILP reforms and accounting treatment in conjunction with reform of public corporations

In FY2000 Audit Report, the Board of Audit reported on the “Financial Position of Public Corporations under the Fiscal Investment and Loan Program.” Since then, the FILP entities and

the environment surrounding them have been greatly changed by FILP reforms and the reform of public corporations. Consequently, the Board examined the financial conditions at 39 corporations subject to the FILP reforms and the accounting treatment implemented in conjunction with public corporation reform, and noted the following.

- (1) Newly established corporations that succeeded to the assets of abolished corporations incurred new losses as a result of asset valuations, and while some newly established corporations extinguished such losses or the losses accumulated prior to succession by means such as amortization of government investments (2,110.6 billion yen), other newly established corporations experienced further increases in cumulative losses. Furthermore, a total loss of 356.0 billion yen was incurred in the final accounts for terminated activities, and government investments of 298.8 billion yen were irrecoverable. In addition, a total accumulated deficit of 94.5 billion yen was accounted in the FY2004 final accounts for activities scheduled for termination.
- (2) Although the method of procuring funds at FILP entities also was diversified by the reform of the government's investment and loan program, and fiscal investments and loans to audited FILP entities decreased to a level roughly 50% of the amount before reforms (from 20,730.2 billion yen in FY2000 to 11,353.9 billion yen in FY2004), funds raised from the market through FILP entity bond issues expanded approximately by 300% (from 1,000.4 billion yen in FY2001 to 3,301.9 billion yen in FY2004). Moreover, FILP entity bonds have become a new factor increasing the entities' bond issuance costs, and a disparity in issue interest rates has arisen from the differences with corporations' project schemes.
- (3) With regard to the response to the debt redemption risk faced by FILP entities, most of the losses that arose when entities were converted into independent administrative agencies were recognized through the process of asset succession, and measures have been taken to avoid advanced redemption risk related to policy financial institutions, but overall there are no major changes in the basic risk structure.

Therefore, the Board of Audit will take the following measures:

- (1) It is important for newly established corporations to efficiently manage the projects so that their fiscal burden of the government does not increase further in the future. For those corporations planning organizational reforms or termination of FILP projects in the future, the Board will monitor future changes in project management and revenues/expenditures, including whether the fiscal burden of the government increases in conjunction with reorganization and termination of FILP projects.
- (2) For future FILP entity bond issues, it will be important to control fund procurement costs as much as possible, and the Board will monitor corporations' project management in conjunction with the bond issuance conditions.
- (3) The Board will monitor whether there is a possibility of risk increasing along with future changes in the social and economic circumstances.

Section 7. Special report on audit requested by the Diet (7 cases)

(1) Audit results concerning Official Development Assistance (ODA)

The Board of Audit conducted audits concerning Official Development Assistance (ODA) for (1) outsourcing agreements to NPOs, development consultants and other entities, (2) the implementation of grants for grass roots and human security and (3) the execution of emergency assistance following the Sumatra offshore earthquake.

Concerning (1), the Board found inappropriate payment procedures for a re-consignment contract concluded by a consultant that performed a survey based on an agreement with Japan International Cooperation Agency (JICA) (Total amount from improper billings and other errors by the consultant: 39.66 million yen). With regard to this finding, JICA is expected to ensure proper contract performance for outsourcing agreements with consultants in conjunction with re-consignment agreements. Furthermore, the Board will continue audits of projects for which it found accounting transaction different from the facts for re-consignment agreements related to JICA outsourcing agreements (13 projects in 11 countries), referring to the JICA reports, and will report the audit result on completion.

Concerning (2), the Board found that in many instances projects are not completed by the final date in the grant agreement, and verifications through site inspections on the final dates are not being sufficiently implemented. Moreover, at the time of the Board's site visits, grants that were not being used in conformity with the originally intended purpose also were found (four grants totaling 31.63 million yen). Therefore, when concluding grant agreements, it is necessary for the Ministry of Foreign Affairs to thoroughly instruct the overseas diplomatic establishments to further explain the system's purpose to grant recipients, and for the overseas diplomatic establishments to appropriately perform their future activities. In the future, the Board will monitor whether grass roots and human security grant aids are being implemented appropriately serving the purpose of the system.

Concerning (3), many facility construction agreements for non-project grant financial aid projects to disaster-affected countries require significant time until the agreements are concluded and the projects are completed. Because funds are supposed to be paid according to construction progress, the payment percentages (the ratio of the amount already paid to the grant amount) as of March 31, 2006 came to 20.5% for Indonesia, 30.2% for Maldives and 42.8% for Sri Lanka. Because these projects were implemented as emergency aid, they must be used for prompt disaster recovery and restoration. Therefore the Board will continue auditing the payment progress, and will report as soon as it completes the audits.

(2) Audit results concerning upgrade projects implemented by Small & Medium Enterprises and Regional Innovation, Japan (SMERIJ, formerly Japan Small and Medium Enterprise Corporation)

The Board of Audit undertook audits on upgrading projects being implemented by the Small & Medium Enterprises and Regional Innovation, Japan concerning the status of (1) system utilization by small and medium-sized enterprises, (2) lending conditions, (3) loan repayments by small and medium-sized enterprises and (4) generation of surplus funds and fund investments. The Board found new lending has decreased (11.0 billion yen in FY2005 compared with 80.5 billion yen in FY1999) because of various factors including loan application procedures that small and medium-size businesses find too complicated, the ability to borrow at low interest rates from commercial banks, and heavy administrative demands when lending or after loans are made that have dampened local governments' efforts. On the other hand, a gap has emerged between lending resources and the loan balance because of substantial repaid funds each fiscal year as advanced redemptions increase (from 81.0 billion yen to 158.2 billion yen each fiscal year from FY1999 to FY2005) and rapidly decreasing loan balances (from 1,142.1 billion yen at the end of FY1999 to 611.3 billion yen at the end of FY2005), and surplus funds have increased (deposits and negotiable securities increased by 92.2 billion yen from July 2004 to March 2006, and the balance of surplus funds at the end of March 2006 stood at 383.9 billion yen). Moreover, bad loans continue to grow.

Therefore, to further simplify loan procedures from the system users' perspective, SMERIJ must seek to promote use of the loan system by measures such as expanding loans directly to small and medium-sized enterprises not through local governments, and studying the role local governments should fulfill, including whether it is possible to create a support system to keep local governments from lessening their efforts. In addition, further strengthening credit management capabilities and promoting the cleanup of rapidly mounting bad loans are urgent issues. Finally, when the elimination of surplus funds is expected to be difficult, the SMERIJ must take steps to ensure financial resources corresponding to the execution of the SMERIJ's activities. In this regard, the Board will continue to monitor items such as the status of loan system investments for advanced projects.

(3) Audit results concerning Special Accounts

The Board of Audit undertook audits on the Special Accounts under the jurisdiction of each ministry from the viewpoints such as (1) transparency such as information disclosure, (2) changes in carry-forward balances, unused amounts, final account surpluses, reserves and other amounts, (3) budget execution of three Special Accounts such as Special Account for the Promotion of Electric Power Sources Development, (4) investment in government

financed corporations under two Special Accounts such as Special Account for Industrial Investment and (5) public finance control related to each Special Account. The Board found various public finance control issues including (1) transparency in public finance status is not being adequately ensured, (2) large amount of carry-forwards, unused amounts and final account surpluses are continuously generated, (3) standards concerning the upper-limit of reserves have not been provided specifically, (4) the gaps between budget estimates and execution amounts have still existed and (5) carry-forward losses being held at government financed corporations.

Therefore, in light of current severe financial conditions in the General Account, each ministry with jurisdiction over a Special Account should:

- (1) work to disseminate information that is easier to understand and seek to improve the transparency of each Special Account;
- (2) be more thorough in checking and analyzing budget execution status and final accounts, and adequately reflect the results in the budgets;
- (3) note the details and balances of final account surpluses, reserves and other accounts, and investigate effective use of funds including putting them into the General Account if possible by considering the character of each Special Account or financial source and the trend in demand for projects;
- (4) seek appropriate management of administration and activities and continually pursue budget execution and management aimed at rationalization of annual expenditures; and
- (5) pursue revisions through careful attention to providing appropriate management as the shareholder to government financed corporations, noting the suitability of new project selections and financial conditions, and ensure financial data to be readable, steadily implement the Special Account reforms now being carried out including the reduction of surpluses/reserves, and achieve more effective financial administration control for each Special Account.

The Board will continue to audit financial administration control for each Special Account from diversified viewpoints.

(4) Audit results concerning local government finances

The Board of Audit referred to materials already prepared by the Ministry of Internal Affairs and Communications to perform audits on local government finances at the Ministry of Internal Affairs and Communications, 15 prefectures and 176 municipalities, by examining (1) the amount of each type of expenditures in the Local Government Financial Plan and (2) special duty allowances for employees, expenditures to employee public welfare programs and employee sick leave system etc.

- (1) When the budget amounts in the Local Government Financial Plan and General Accounts' expenditure amounts are compared by annual expenditure classification from

FY1987 until FY2003, the amounts since FY1990 for general administrative expenditures exceeds 6.0 trillion yen and the final account amount for pay salary-related expenditures is consistently between one to two trillion yen, gaps that exceed the respective Plan amounts have occurred, and for (non-consolidated) investment expenditures, a gap in which the final account expenditure amount since FY1999 falls below the Plan amount of over 5.0 trillion yen has occurred.

- (2) Special work allowances have been provided to employees, namely allowances not established by national public service employees (2,539 allowances for 13.5 billion yen at municipalities excluding government-designated cities), redundant allowances for work content addressed by other allowances or salaries (534 allowances for 3.3 billion yen for the same municipalities as above) and allowances that are paid as monthly wages or other amounts regardless of whether or not the employees are engaged in the special work activities (1,441 allowances for 9.1 billion yen for the same municipalities as above). For expenditures to employee public welfare programs, most local authorities pay subsidies to groups such as employee mutual aid associations, and provision of items such as cash, gift certificates, travel tickets and commemorative gifts are eligible for subsidies. With regard to sick leave systems, 21% of all groups have sick leave arrangements similar to the national government's system, and 90% of all groups have established special leave or other arrangement that are more extensive than those of the central government.

Therefore, the Board found that in order to (1) shrink the gap between the budget amounts of the Local Government Financial Plan and the final account expenditure amounts of General Account, the budget amount of the Local Government Financial Plan for the standalone projects should be accounted for by sufficiently considering status of standard expenditures by local governments. In addition, (2) for special work allowances, expenditures to public welfare programs and sick leave systems for local public service employees, local governments should review the necessity and validity based on the changing times and revise these programs so that they meet with public understanding, and should actively disclose and announce the specific details and application of these items to local residents. The Board will continue to review the final accounts of local government authorities.

- (5) Audit results concerning computer systems at ministries

The Board of Audit undertook audits mainly on (1) contract competitiveness, (2) system utilization, (3) data security measures and (4) effects of optimization plans concerning the computer systems at each ministry (amount of payments related to FY2004 State information systems analyzed during the audits: 477.3 billion yen). The Board found various issues including (1) insufficient competition for contracts and frequently inadequate

verification of the calculation of estimated prices after contracts were signed (2) low utilization rates for systems related to electronic applications (3) data security control systems that frequently are inadequate, and (4) issues for realizing the effects calculated during optimization planning when optimizing operations and systems.

Therefore, the Board believes that the ministries must execute economically, efficiently and effectively budgets related to central government information systems through measures as follows:

- (1) Improving contract competition and transparency by further clarifying specification document details when awarding the contracts related to information systems, and improving estimated prices by adequately verifying details after contracts are signed,
- (2) Enhancing public convenience by working to broaden use of systems related to electronic applications systems by steadily executing measures that conform to action plans promoting online use,
- (3) Strengthening each security measure and creating control systems for that purpose when developing data security measures, and
- (4) Smoothly executing measures aimed at optimization of activities and systems by means such as accurately managing execution of optimization plans to achieve cost reduction effects shown in optimization plans, while also continuously monitoring whether optimization plans are revised in response to changes in conditions.

The Board will continue to audit central government computer systems from diversified viewpoints.

(6) Audit results concerning current social security expenditures

The Board of Audit undertook audits on (1) medical insurance, (2) nursing care insurance and (3) social assistance concerning the status of social security expenditures. The Board found the following:

(1) Medical Insurance

The financial conditions are severe. For national health insurance managed by municipalities, in FY2004 the single year deficit amount for 204 out of 2,531 insurer exceeded 5% of the insurance benefit costs. Insurance benefits outlays show an increasing trend centered on medical care expenditures for the elderly. Sharp differences were noted among prefectural and municipal governments in medical care costs per person (for the elderly in FY2003, a maximum of 920,000 yen and minimum of 610,000 yen), and the differences have become permanent. Finally, a correlation was recognized between this difference and the medical care delivery system such as the number of sickbeds.

(2) Nursing Care Insurance

The financial condition of nursing care insurance showed that in FY2004 870

municipalities were in the black, and 1,377 municipalities were in the red. Insurance outlays for nursing care benefits rose sharply, increasing 1.7 times from 3,229.1 billion yen in FY2000 to 5,522.0 billion yen in FY2004. There are regional disparities in the eligibility rate, insurance benefit amount per person and Category 1 insurance premiums (eligibility rate by each prefecture in FY2004: maximum 20.3%, minimum 11.9%).

(3) Social Assistance

Regional disparities are found concerning social assistance in the assistance rate by each prefecture in FY2004, ranging from a maximum of 23.1% to a minimum of 2.1%, a difference of 10.7 times. Differences also are found in the organizations providing assistance and conditions of protection offered. Furthermore, a correlation was found between the coverage ratio, economic factors such as total unemployment rate and social factors such as the ratio of the elderly who live alone.

The Board recommends the following in light of the above-mentioned conditions:

(1) Medical Insurance

To improve financial conditions for medical insurance, prefectures and municipalities should undertake further efforts to increase the insurance premium collection rate and optimizing healthcare costs, seek to reduce the regional disparities in healthcare costs and medical care delivery systems, and develop mechanisms that will link healthcare cost optimization efforts to mitigation of the burden on concerned parties. The Board will continue to monitor medical insurance financial conditions.

(2) Nursing Care Insurance

For nursing care insurance, it will be necessary to understand factors such as user trends more accurately and take appropriate measures on a timely basis in order to maintain stable nursing care insurance financial conditions in the future. Because nursing care benefit outlays are expected to follow a rising trend in the future, it will be necessary to monitor nursing care service utilization trends in the future. Given that any widening of the regional disparity in eligibility rates is undesirable, efforts must be made to correct causative factors such as excessive provision of services or the extreme uneven distribution of facilities and services among regions. The Board will continue to monitor trend affecting the entire system.

(3) Social Assistance

For social assistance, it will be desirable to precisely set forth various measures in sufficient cooperation with the implementing organizations, based on the affect economic factors and social factors will have on nursing assistance trends, and reduce the differences among program entities in nursing assistance delivery systems and execution. The Board will continue to monitor nursing assistance trends as well as proper system operation.

(7) Audit results concerning execution of downtown revitalization projects

The Board of Audit conducted audits concerning downtown revitalization projects of (1) project expenses by ministries concerned, State expenditure burden and project execution since FY1998, (2) the personnel organization and financial base of the entities implementing the projects and (3) project effectiveness including revitalization of small and medium-sized businesses. The Board found the following:

- (1) From FY1998 through FY2004, project expenses by ministries (the Cabinet Office and eight other ministries) were 5,018.3 billion yen, and the State expenditure burden was 2,002.8 billion yen. Also, with regard to project execution, of 455 districts that prepared the basic plans between FY1998 and FY2000, municipalities in 137 districts did not understand the pulse of the local residents when preparing their plans, and in 25 districts established target annual sales as specific numerical objectives. Moreover, in nearly all districts that decided to create a new downtown area and approved projects which could be started within five years after the basic plan was prepared, the projects were not begun although five years had passed because the districts had not made a consensus with the parties concerned.
- (2) With regard to personnel organizations and financial base, only about 50% of the districts set up a consultation committee to cooperate smoothly with private entities in the municipal district. Moreover, over 60% of the town management organizations (TMO) did not have any employee devoted full-time to the project, and 70% of the TMO were entities such as the chamber of commerce that covered over 50% of the activity-related expenditures with central government subsidies.
- (3) When the effectiveness of small and medium-sized enterprise stimulus projects was analyzed by comparing the relationship between the increase in indicators such as population, number of offices, amount of annual retail goods sales before and after implementation of the project and project expenses, the decline in indicators other than population was not halted with the exception of a few districts. Finally, factors such as local characteristics including type of project implemented, status of land available for use, the location of large-scale retail stores, public offices and public facilities are thought to have influenced the effectiveness of the projects.

Therefore, when implementing downtown revitalization measures based on three revised laws concerning urban renewal and new basic policies, it is desirable to (1) prepare an appropriate and specific basic plan that conforms to actual local circumstances in the municipality, create and enhance organizations to steadily achieve the plan and set clear-cut objectives to complete the plan and (2) create mechanisms at the national level to appropriately evaluate efforts to revitalize downtown areas, and invest efficient national expenditures in a manner that will effectively promote uniform efforts to improve urban functions, increase economic vitality and restore “vigor and bustle.” The Board will continue to monitor whether the effects of downtown revitalization measures are realized.

Section 8. Special report on audit implementation (14 cases)

(1) Execution of bids and contracts concerning construction works and outsourced activities at the Defense Facilities Administration Agency

Each fiscal year, the Defense Facilities Administration Agency invests in large-scale projects and manages various construction works such as the defense facilities used by each branch of Japan's Self-Defense Forces and the United States Armed Forces stationed in Japan. In the course of the audit on the conditions of bids and contracts concerning construction work and outsourced activities, based on a bid-rigging incident at the Defense Facilities Administration Agency, the Board of Audit found that the average successful bid rate for construction works following the resumption of bid and contract procedures in March 2006 had dropped by about 10% compared with that in February 2006, and that when multi-round bidding was conducted the percentage of bidders initially in first place who remained in first place until winning with a successful bid had increased to 98.5%. Other situations also were found, including unnatural inclination such as same errors in detailed construction cost breakdown statements submitted by several bid participants, and the designation of contractors capable of performing certain construction works followed by the receipt of estimates only from those designated contractors when estimating the planned price for projects such as facility works to install special equipment. Furthermore, for outsourced activities the Board also found the situations such as all contracts between the Defense Facilities Administration Agency and the Defence Facilities Technology Association (DFTA) being negotiated contracts, some of which were re-outsourced to another institutions without permission by the Defense Facilities Administration Agency, and accepting estimates from the association without specifying the required employment grade for the engineers and the number of individuals when estimating outsourcing costs for site technology activities.

Therefore, to restore the trust of the people that was lost as a result of the collusive bidding-rigging cases at the initiative of government agencies, the Defense Facilities Administration Agency must work to recover from the damage caused by the State-controlling bid-rigging cases, and take appropriate actions including implementing the new bidding procedures summarized in the report of the study committee established at the Defense Agency headquarter and in conjunction with this investigation effective procedures for using the detailed construction cost breakdown statements. Furthermore, because activities that have been outsourced to DFTA through negotiated contracts will become competitive contracts, the Agency must study outsourcing and estimation methods.

(2) Official Development Assistance

The Board of Audit undertook audits on the government agencies such as the Ministry of Foreign Affairs, and performed field review of 32 projects in six countries. As a result of the Board's audit on the execution of various measures the aid recipient countries should manage in relation to the technical cooperation projects Japan International Cooperation Agency (JICA) is implementing, the Board determined there are points that should be improved for execution of three projects for which the recipient countries were not managing the various measures they should perform and the project effects were not being sufficiently demonstrated, and for which the projects were being implemented by other methods without the grant equipment and parts being utilized sufficiently. For these projects, JICA did not adequately understand in a timely manner the status of execution of the various measures the recipient countries should have taken, and had not delivered any documents specifically stating the various measures the recipient countries should implement. Moreover, the Board was unable to confirm whether JICA had systematically required the recipient countries to encourage implementation of the various measures the recipient countries should manage.

Therefore, JICA should (1) study effective measures to adequately understand in a timely manner the status of execution of the various measures the recipient countries should take after the end of a project and to demonstrate the effects of the aid, (2) record the specific contents and verify in a written form with recipient countries the various measures the recipient countries should take, and (3) systematically require the recipient countries to take the various measures, if any, yet to be implemented, and continually record the details of negotiations with recipient countries and execute projects more steadily.

(3) Assessment of corporation tax on for-profit activities managed by public interest corporation

The public interest corporation system had not undergone any substantial revisions after the Civil Code was enacted, and for many years criticisms of the way public interest corporations operate and problems were highlighted. In May 2006, the three laws related to public interest corporation system reform were enacted, and the government and other parties began study of a specific tax system for the new public interest corporation system by the enforcement date of the three laws mentioned above. Consequently, the Board of Audit undertook audits on 997 selected corporations concerning the circumstances of how the corporation tax is currently assessed on the for-profit activities managed by public interest corporations, and found the following:

- (1) The kinds of for-profit activities public interest corporations are managing include contracted businesses, commodity sales businesses and real estate rental/leasing

- businesses, and of the 978 corporations whose activities could be confirmed half of the public interest corporations were managing two or more businesses.
- (2) 20 corporations were found whose for-profit activities account for 100% of their revenues.
 - (3) Of 487 public interest corporation to which the provisions for deemed donations were applied, 434 corporations for which the substantive corporate tax burden ratio was reduced by more than 22% were found.
 - (4) When the revenues and expenditures of 487 corporations that applied non-profit activity accounting were examined, the revenues and expenditures of for-profit activities at 153 corporations were balanced or in red and 88 corporations posted a reserve carry-forward to non-profit activity accounting.
 - (5) When the revenues for non-taxable activities were examined, the category with the largest number of corporations was interest and dividends received, and the category with the largest amount of money was income from sales of negotiable securities.
 - (6) The average total assets per corporation at the 538 corporations that submitted balance sheets used for both for-profit activities accounting and non-profit activities accounting were 96.2 billion yen for incorporated associations and 12.9 billion yen for incorporated foundations.

This reform of the public interest corporation system created a new non-profit corporation system in place of the public interest corporation system based on the Civil Code. In the future it will be important to pursue special investigations while taking the necessary preparations for a smooth transition to the new system and working to understand the application of tax system measures such as deemed donations to existing public interest corporations.

- (4) Application of special taxation measures (exceptions to calculation of inheritance tax assessed value for small-scale housing lots)

Special taxation measures are measures enacted as exceptions to the basic tax system philosophy of fairness, impartial and simplicity as a means to achieve specific policy objectives, but also are measures that result in a reduction in tax revenues under severe financial conditions. Consequently, the Board of Audit examined the application and verification conditions of the exception to calculation of inheritance tax assessed value for small-scale housing lots (estimate amount of revenue reduction in FY2005: 81.0 billion yen). Concerning the application conditions the Board found the below-mentioned:

- (1) As to the regional average of the assessed value reduced, the value reduced of the Tokyo (23 wards) is 2.4 times the amount for a government-designated major city, that of other cities and towns and villages are 4.6 and 10.6 times respectively. And the higher the price of land in an area is, the larger the assessed value reduction will become.

- (2) As to the inheritance of a business, 7.7% of the heirs transferred their residential land among the heirs who succeeded the residential lands for specified business and other businesses.
- (3) As to the size of business, small-scale businesses (including loans of real estate not considered a “business”) were also found.
- (4) As to the heirs who do not fulfill the requirements because of joint succession with an heir who meets the requirements for residence continuation to which the residential land for a specific residence at the reduction ratio of 80% is applied, 32 cases were found in which the applicable area of the heir accounted for majority or all of the entire applicable area including residential land for a specific residence.
- (5) 83 cases were found in which special measures were applied as residential land for a specific residence to the entire land are including the lot portion corresponding to the rental portion other than land for residential use on which the heir is assumed to continue living, because part of the building site for one house corresponds to residential land for a specific residence.
- (6) Transferred small-scale residential land was found in 193 cases, of which 30 cases met the requirement for continued possession until the due date for filing the inheritance tax return, and of these 30 there were 19 cases in which the land was transferred within 12 months after the date following the due date for filing the return.

Moreover, with regard to application conditions, for verifications at the time tax reform was demanded, issues found by the Board included no analysis being performed of the specific policy effects based on data or other resources concerning verification status. Moreover, in the policy evaluation the exception for small-scale residential land was not included in any measure until FY2005, and no verification was performed in the policy evaluation. The Ministry of Economy, Trade and Industry is required to improve policy effectiveness by further enhancing the details of verifications of the exception for small-scale residential land, and to fulfill accountability to the public. Furthermore, the Ministry of Finance is required to adequately verify the exception for small-scale residential land in the future.

(5) Accounting transactions of Labour Bureaus

Following the audit of the improper accounting transactions of the Hiroshima and Hyogo Labour Bureaus, the Board of Audit performed strict audits on accounting transactions at Labour Bureaus. As a result, the Board found that 25 Labour Bureaus improperly used funds for purposes such as agency expenses, rewards and travel expenses, and 16 out of 25 Labour Bureaus accounted separately for funds raised through the improper use of funds. The Board also found that all 47 Labour Bureaus did improper accounting transactions differing from the facts, including preparation of fictitious documents when purchasing goods, and used the funds for Bureau’s other expenses. The Board discovered other improprieties as well,

including improper payments of overtime allowances, conclusion of contracts and payment of expenditures in violation of the accounting laws/ordinances when purchasing an automated employment information search engine and signing contracts based on fictitious competitive bidding. Outsourcing expenses for conferences were also paid improperly by paying outsourcing expenses to Labour Bureaus where conference secretariats had been established.

Labour Bureaus have not observed accounting laws/ordinances and basic accounting administration procedures, and have failed to sufficiently recognize the importance of ensuring proper accounting discipline, and illegal or improper accounting transactions have long been used as habitual practices. The Board will continue to examine the implementation of correct accounting transactions and accounting discipline at Labour Bureaus, monitor public accounts and continue performing strict, accurate audits to correct these problems and accomplish its mission, including the elimination of improper accounting practices.

(6) Application exemption and student exemption exception of National Pension insurance premiums

The Social Insurance Agency is responsible for the management of the National Pension program based on the National Pension Law. While individuals insured through this program must pay insurance premiums, an application exemption and student exemption exception under which individuals are not required to pay all or part of the insurance premiums under certain conditions are available. In February 2006, situations in which exemptions for Class 1 insured persons had been approved without an application were uncovered by an investigation of the Agency, and in May 2006 the mass media reported improper processing exemptions from National Pension insurance premiums, and as a result these problems were also taken up by the Diet. When the Board of Audit, considering the importance of the situation, conducted an audit in parallel with the investigation by the Agency to determine whether applications assumed in the Agency investigation to have been processed properly included applications that had been processed improperly, the Board found 180 inappropriate cases, including approvals of cases even though the insured persons did not meet the requirements provided by law (equivalent value of exemption insurance premiums: 23.85 million yen).

The Agency explains that it will attempt to improve the circumstances found to be inappropriate through the Board's audit.

The National Pension program must be continued in order to provide for the maintenance and improvement of healthy lives for Japan's citizens in the future, and maintaining public

trust in this program is critical. Achieving this objective strongly requires conscientious administration that complies with the law, and the Agency must steadily implement the improvement plan contained in the above report. The Board will continue its audits while monitoring implementation of the improvement plan the Agency will undertake in order to appropriately administer National Pension insurance premiums application exemptions in the future.

- (7) Readjustment and rationalization of pension and health insurance welfare facilities established by the Social Insurance Agency

The Social Insurance Agency, which has established and managed pension and health insurance welfare facilities, has decided to reorganize and rationalize these facilities under the severe financial conditions surrounding the pension system in recent years, the social climate affecting these facilities and changing public needs. To achieve this goal, the Agency completed an reorganization and rationalization plan in March 2005, and after establishing the Reorganization of Facilities for Insured Persons and Beneficiaries Organization in October 2005 transferred the facilities to the Organization, which will be transferred or abolished within five years of its creation by privatization or other means. Consequently, the Board of Audit analyzed the calculation of the investment value transferred to the Organization and the abolition and transfer of the facilities the Organization is managing, and implemented an audit regarding whether there are problems that should be considered when transferring the facilities to the Organization in the future.

The Board found that the government investment amount related to the facilities contributed when the organization was established (192.1 billion yen) was below the facilities' book value (665.1 billion yen), resulting in a substantial loss on succession of fixed assets in the Welfare Insurance Special Account and the National Pensions Special Account. The Board also found facilities that included factors that might interrupt future transfers, such as 10 facilities existed on the premises of the contributed facilities. On the other hand, out of the 288 facilities transferred to the Organization by April 2006, there are only 21 facilities for which bids were implemented, and only 10 facilities for which the Organization had made a successful bid.

Therefore, the Board found that it is necessary for the Agency to investigate the approach concerning (1) support such as dissemination of the information required to ensure transfers are implemented to the Organization at proper prices from the standpoint of minimizing losses to the pension fund, (2) support for activities required by the Organization for the facilities found on the premises, (3) monitoring of changes in future successful bids and advice on improvements to the bidding method that are required for monitoring and (4) support for dissemination of the information required for facility transfers planned for the

future including medical care-related facilities such as social insurance health clinics. It is also desirable for the Organization to appropriately dispose assets that include factors that might interrupt future transfers, and to transfer facilities to the third parties in the timely and appropriate manner according to the assets' characteristics.

(8) Inventory of foreign rice and its profits/ loss

Based on the GATT Uruguay Round Agreement on Agriculture, the Ministry of Agriculture, Forestry and Fisheries has been importing minimum access rice since FY1995, regardless of domestic rice supply and demand. Because the quantity sold each fiscal year has fallen below the purchase volume, inventory as of the end of FY2005 stood at 1.81 million tons. In FY2005 the government incurred a loss of 20.7 billion yen related to minimum access rice because storage costs have mounted to 17.0 billion yen. Consequently, the Board of Audit audited whether it is possible to reduce storage costs by reducing the inventory volume while noting the causes producing the losses related to minimum access rice. The Board found that selling the minimum access rice as staple food in order to reduce the inventory quantity will be difficult while promoting rice policy reforms and while farmers take the initiative to move towards adjustment of supply and demand to achieve production that corresponds to demand. In addition, with regard to processing, a large-scale sales increase in quantity in the future cannot be expected while volume of demand exhibits a declining trend, and with regard to foreign assistance as well, circumstances do not necessarily encourage hope for a sales increase in quantity. Given such demand circumstances, when evaluating the fiscal year-end inventory of minimum access rice, for which no demand is seen for staple food or processing food, the purchase unit price fell greatly and resulted in a valuation loss because the inventory was valued using the valuation unit price for aid. Furthermore, a loss of 4.3 billion yen resulted in FY2005 even when the valuation loss was not taken into account.

Therefore, when accepting minimum access rice in the future based on the GATT Uruguay Round Agreement on Agriculture, the Ministry of Agriculture, Forestry and Fisheries should undertake further efforts to restore income and costs to health by means such as reducing storage costs and increasing new demand, in response to factors causing minimum access rice losses to worsen.

(9) Implementation of Small and medium-sized enterprise financial stabilization special guarantee system

The small and medium-sized enterprise financial stabilization special guarantee system was created as a temporary exceptional measure to ensure guarantees up to 30.0 trillion yen between October 1998 and March 2001 as part of the measures taken in response to the

worsening cash position at small and medium-sized enterprises as a result of the so-called credit crunch. When calculating the fiscal burden amount required to manage this system, the government designed a loss amount of 1.45 trillion yen by assuming a 10% loss rate for the 25 trillion yen guarantee framework, an 8% loss rate for the remaining 5.0 trillion yen, and a collection rate of 50% identical to the rate for general guarantees. The government invested 1,159.9 billion yen to the Japan Finance Corporation for Small and Medium Enterprise (JASME), and as a Special Fund set aside a total of 290.0 billion yen through prefectural and municipal government to all of 52 credit guarantee corporations in Japan. The Board of Audit examined the discrepancy between the loss rate and collection rate assumed in designing the system and the actual results because five years had passed since the conclusion of administration of this system. The Board found that as of the end of FY2005, the loss rate was 8.1% which was near assumed rate but the collection rate was 12.1% which had fallen markedly below the assumed rate. As a result, the guarantee revenues and expenditures for this system at JASME have continued to generate substantial losses every year since FY1999, reaching a cumulative total of 1,448.9 billion yen, exceeding the 1,159.9 billion yen investment mentioned above by 288.9 billion yen. On the other hand, because of the substantial differences in the loss rate and collection rate among the 52 credit guarantee corporations, 10 of 52 the corporations have already utilized the full amount of their Special Fund, but the remaining 42 corporations hold total balances of 56 billion yen, and judging from their outstanding loan guarantee obligations they are expected to retain an amount equivalent to this without exhausting the balance long into the future.

Therefore, at the national level it will be important to respond to this issue by steps such as investigating policies for the final processing of the corporations' special funds, or attempting to allocate appropriate subsidy amounts according to factors such as the amount of each corporation's guarantee approvals when providing assistance to the corporations in the future and prescribed beforehand the repayment of the subsidies.

(10) Loans to profit-sharing forestry projects by forestry public corporations at the Agriculture Forestry and Fishery Finance Corporation

The Agriculture Forestry and Fishery Finance Corporation (AFFFC) has lent large amounts for profit-sharing forestry projects by forestry public corporations (outstanding loan balance as of the end of FY2005: 417.1 billion yen). Recently, however, many forestry public corporations are under severe financial circumstances caused by huge amounts of debt. Consequently, the Board of Audit examined the loans for profit-sharing forestry projects at forestry public corporations, and found that the profit-sharing forestry project assumption that loans from AFFFC could be repaid from revenue from lumber sales income has been overturned by the substantial changes in forestry circumstances such as the depression in

prices for wood materials. The Board also found that in the long-term revenue and expenditure plan AFFFC prepared based the FY2004 final accounts of each forestry public corporation, the majority of the 39 forestry public corporations are expected to be unable to repay their loans of AFFFC, prefectural and municipal governments or other lenders from the wood sales revenue when cutting timber in the future. Therefore, in the future as well, there is a concern regarding past AFFFC loans that forced conversions to capital and advanced redemptions will increase, becoming a factor that increases grants from the general account, and this will affect the fund operation of AFFFC when repayment delays are requested by prefectural governments that have concluded the loss compensation agreements.

In this regard, AFFFC and related organizations are expected to verify the financial conditions at forestry public corporations based on more appropriate long-term revenue and expenditure plans and manage their activities based on such information.

(11) Audit concerning improper receipt of postage fees for bulk and deferred postage mails at post offices including Nagaoka Post Office

Japan Post has prescribed the administration of bulk and deferred postage mails by its Proper Postage Receipt Manual, and measures the weight of each piece of mail having the same shape and weight, confirms the number of outgoing pieces of mail by means such as weight conversion, a procedure to calculate the entire number of pieces of outgoing mail by dividing this weight by the average weight for one piece of mail, and receives that postal fee on the outgoing mail date. Because Japan Post announced in May 2006 that instances of improper postage receipt of bulk and deferred postage mail had occurred at a number of post offices, the Board of Audit conducted audits from various viewpoints such as correctness of the number of outgoing pieces of mail and correctness of the postage postal fee received for bulk and deferred postage mail at post offices. The Board clarified that at the Nagaoka Post Office and three other post offices where Japan Post announced improper postage receipt incidents had occurred, mail handling that deviated from the basic procedure provided in Japan Post's manual had become routine, and incidents such as receiving mail improperly and discounting postal rates improperly had occurred. The Board also found numerous instances at other post offices as well, including receiving postage for bulk postage mails at a later date and confirming the number of pieces of mail using weight conversion after bundling together mail that did not have the same shape or weight. The Board recognized that if left uncorrected, there would be a high probability that similar improper incidents would occur at other post offices as well.

Therefore, Japan Post should improve the compliance with the measures it has undertaken to date, such as conscientiously observing the law etc, in all postal activities, including receipt of bulk and deferred postage mails and collection of postage, and resolute compliance with the procedures prescribed in its manuals and other guidelines.

(12) Control of total savings per depositor in postal savings

Japan Post regularly identifies the names of each depositor and with regard to the maximum deposit amount per depositor set forth by the Postal Savings Law controls the total savings amount by providing for savings balance reduction processing procedures for depositors who exceed the deposit limit. Appropriate operation of this maximum deposit amount system is a key issue for Japan Post, and because the Postal Savings and Kampo Life Insurance Management Organization, an independent administrative agency, will succeed to the majority of postal savings, and the government guarantee will be continued after Japan Post's privatization and breakup, Japan Post must appropriately manage total savings to ensure the postal savings amounts that do not exceed the maximum deposit amount. Consequently, the Board of Audit conducted audits of matters such as whether Japan Post is properly and efficiently correcting illegal situations related to control of the total savings per depositors, whether Japan Post should care about some issues in implementing those controls, and whether processing to return the allowance provided to the employees when receiving deposits for savings that exceed the amount of the deposit limit is being implemented appropriately. The Board found many cases of both individual depositors and corporations that exceeded the deposit limit that had not been processed to reduce the amount, and the amount of those excess was substantial (213.1 billion yen for individual depositors as of March 31, 2006, and 37.7 billion yen for corporations as of April 30, 2006). The Board examined the mailing of requests to these unprocessed depositors to reduce the amounts in their accounts, and found that the mail notices was not being completed according to procedures although there were depositors for whom strict action, including the mailing of notifications was necessary. In addition, under the procedures currently used to control total savings, there were instances where new depositors set up accounts that exceeded the deposit limit, and furthermore, conditions where in nearly every case it was impossible to verify returning allowances provided to employees.

Therefore, in order to properly implement controls on savings totals, Japan Post must eliminate depositors whose deposits exceed the limit by promptly following procedures to mail notifications, and further promoting measures to improve the accuracy of name identification and prevent the occurrence of new depositors whose balances exceed the maximum deposit amount.

(13) Execution of project revitalization support by The Industrial Revitalization Corporation of Japan

The Industrial Revitalization Corporation of Japan (IRCJ) is a limited duration entity established in April 2003 to help revitalize Japanese industry and maintain orderly credit

condition by promoting write-offs of non-performing loans by financial institutions. After beginning operations in May 2003, the IRCJ approved support decisions for 41 projects, and using financial institution loans guaranteed by the government as source funds provided support for the revitalization of the businesses targeted for support with a combination of claim purchases, new financing and capital injections (total 976.3 billion yen). By June 2006 the IRCJ had fully recovered or disposed the claims such as by selling them related to 34 projects for which it had ended revitalization support, and its revitalization support had contributed to the disposal of bad loans. Furthermore, based on the changes in the IRCJ's financial position, the probability of a public financial burden resulting when the IRCJ is dissolved appears relatively small.

Because the IRCJ still held claims related to seven projects at the end of June 2006 that it must collect, the Board of Audit will continue to monitor the status of the IRCJ's revitalization support, disposal of outstanding claims and financial position. Furthermore, considering the fact the IRCJ was responsible for project redevelopment that should have been implemented by private sector from the start, it will be important for other revitalization projects in Japan to sufficiently apply the expertise accumulated by the IRCJ concerning reconciliation among creditors and project revitalization techniques.

(14) Internal audits at government-invested corporations

All government-invested corporations are required to enhance and strengthen internal controls, and internal audits are expected to fulfill a key role. Consequently, the Board of Audit performed audits of 50 corporations concerning the internal audit implementation organizations and status of audits at government-invested corporations, the links with other audit organization activities and audit organizations, and efforts concerning business risk audits.

The Board found the followings:

- (1) -1 The majority of daily activities are spent on audit activities when the internal audit organization belong is under the jurisdiction of a specific department such as the accounting section.
 - 2 Rules setting forth audit authority have not been prepared.
 - 3 Internal audit staff audit the activities they concurrently perform.
 - 4 The auditors' audit activities are assisted substantively by internal audit staff.
- (2) -1 No efforts were made to establish cooperation among audit organs including audits by the accountants.
 - 2 Audits to address business risk, audits for matters pointed out by the Board and audits responding to scandals that had occurred at the corporations were not being performed adequately.
- (3) The corporations did not have sufficient confirmation of how audit results were well-known or how improvement measures were being properly implemented.

- (4) The corporations that had not established an internal audit organization because of the sizes and the number of staff.

Therefore, each corporation should observe the followings:

- (1) in order to ensure the independence and objectivity of internal audit activities,
- 1 to make internal audit organization independent from the departments subject to its audit,
 - 2 to clarify audit authority in its company rules,
 - 3 to give certain consideration to audits of the activities being performed concurrently by the internal audit staff and note the difference in the role of both audits when substantively assisting the auditors' audit activities.
- (2) in order to implement efficient, effective internal audits,
- 1 to formulate appropriate audit plans based on business risk, prepare manuals and other materials to ensure the required audit standards,
 - 2 to work to establish the necessary cooperation with other audit organizations and improve audit quality, and
 - 3 to implement audits appropriately after receipt of guidance from the Board or following a serious scandal and audit the effectiveness of the measures taken.
- (3) in order to ensure the effectiveness such as internal audits,
- 1 to disseminate the audit results within the corporation, and
 - 2 to confirm that improvement measures are firmly in place.
- (4) at corporations that have not created an internal audit organization, direct further attention to ensuring the effectiveness of internal controls including the strengthening of internal checks and an appropriate response to business risk.