

1. Status of Landslide Disaster Risk Reduction Measures in Hazardous Areas Outside the Road Zone of Expressways (Demand for Measures)

East Nippon Expressway Co., Ltd., Central Nippon Expressway Co., Ltd.,
West Nippon Expressway Co., Ltd.,
2.00709 billion yen, 0.94434 billion yen, 2.17505 billion yen (Background amount)
0.34929 billion yen, 6.72767 billion yen, 5.36082 billion yen (Background amount)

Overview of Landslide Risk Reduction Measures

- ✓ The three companies (East Nippon Expressway Co., Ltd., Central Nippon Expressway Co., Ltd. and West Nippon Expressway Co., Ltd.) have formulated disaster inspection guidelines to contribute to ensuring prompt and safe road traffic in the event of a disaster.
- ✓ Based on the guidelines, the branches and management offices of the three companies selected **hazardous areas outside the road zone** (Note 1) to the extent possible and prepared a **report on hazardous areas outside the road zone** that describes the state of danger, the name of the area, and the **administrators** (local governments).
(Note 1) Areas outside the road zone that are considered dangerous for traffic on expressways, such as areas where landslides are likely to occur.
- ✓ The management offices were to **coordinate with the administrators**, concerning the aforementioned areas and make efforts to ensure that the administrators, take measures to prevent hazards.
- ✓ From FYs 2020 to 2023, the three companies conducted aerial laser profiler surveys (**LP surveys**) for the purpose of disaster risk analysis based on data obtained from laser profiler (Note 2) surveys. (Note 2) Technology to accurately measure topography by irradiating a laser beam from an airplane or other aircraft onto the Earth's surface and measuring the reflected light.
- ✓ The three companies were to carry out **restoration work**, including emergency restoration, in the event of serious damage to expressways and the surrounding area due to landslides.

Results of the Audit

- 1-1. The 72 management offices, which had selected hazardous areas outside the road zone, **did not coordinate** with the administrators prior to the occurrence of a landslide disaster.
- 1-2. Of the 5,436 **overlapping areas** (Note 3) **not selected** as hazardous areas outside the road zone, **290** met the condition of **hazardous areas outside the road zone. 2,876 areas, which were still unclear** whether they fell under such designation or not, **needed detailed investigation.** (Note 3) Areas that include areas that overlap with expressways in the warning areas (i.e. landslide warning areas or landslide special warning areas).
- 1-3. **The results of the LP survey**, which would contribute to the determination of hazardous areas outside the road zone, were not presented to the management offices promptly and **were not used in the selection process.**
(The contract amount of the LP survey services performed by the three companies were 2.00709 billion yen, 0.94434 billion yen and 2.17505 billion yen respectively.)
2. If the management offices **had selected** the locations of landscape disasters **as the hazardous areas outside the road zone by taking the warning areas into consideration and using the results of the LP survey**, and **coordinated** with the administrators, the administrators would have taken measures to prevent hazards. Then, **the landslide could have been prevented or the damage could have been mitigated.** (Costs incurred by the three companies for restoration work from FYs 2019 to 2023 were 0.34929 billion yen, 6.72767 billion yen and 5.36082 billion yen respectively.)

Demand for Measures

- ✓ The management offices should once again **select hazardous areas outside the road zone by taking warning areas into consideration** and conducting detailed surveys **using the LP survey results.** Then, they should **prepare a report on the hazardous areas outside the road zone** that includes information on the administrators, etc.
- ✓ The head offices of the three companies should **establish policies for coordination** between management offices and administrators, as well as the method of determining priorities based on the significance of expressways and disaster risks so that the coordination can be performed efficiently and effectively. Then, they should **thoroughly inform** the policies and methods to branch offices and management offices.

2. Impacts of Irrigation Pond Decommissioning Works on Downstream Areas (Measures Taken)

Ministry of Agriculture, Forestry and Fisheries and
three Regional Agricultural Administration Offices

0.15683 billion yen (Improper amount)

Overview of Irrigation Pond Decommissioning Works

- ✓ The Ministry of Agriculture, Forestry and Fisheries provided subsidies to prefectures, municipalities (implementing entities) to support the decommissioning of the water storage function of old irrigation ponds that are no longer expected to be used (**irrigation pond decommissioning works**), as part of disaster risk reduction and mitigation projects.
- ✓ The irrigation pond decommissioning works mainly consist of **excavating** part or all of the embankment, constructing a **new canal** at the bottom of the excavated embankment, and **connecting** it to the existing canal downstream ("**existing canal**"). The new canal and the existing canal **function as drainage canals**, draining rainwater and other runoff from the abandoned irrigation ponds to the downstream area.
- ✓ According to design standards, drainage canals must be designed to **safely control drainage during floods**.

Results of the Audit

- ✓ The Board audited 198 locations managed by 80 implementing entities that had completed irrigation pond decommissioning works from FYs 2021 to 2024 (total engineering expenses : 1.71564 billion yen, total corresponding subsidy amount: 1.51876 billion yen).
- ✓ In **94** irrigation pond decommissioning works executed by 47 implementing entities, the entities were **unaware of the flow capacity of the existing canals**. Among these works, the **design flow rate of the new canals exceeded the flow capacity of the existing canals** in **14** irrigation pond decommissioning works carried out by 9 implementing entities⁽¹⁾.
- ✓ Of the irrigation pond decommissioning works in which the implementing entities **recognized** the flow capacity of the existing canals **during the design phase**, the **design flow rate of the new canals exceeded the capacity of the existing canals at 9 locations** implemented by 5 entities⁽²⁾.
- ✓ As to the **23** irrigation pond decommissioning works executed by 14 implementing entities (the total engineering expenses were 0.16811 billion yen, and a total corresponding subsidy amount was **0.15683 billion yen**) ((1) + (2)), **stormwater was not safely drained to downstream areas**, and therefore entailed a risk of **overflow** at the connection between the new and existing canals, **which could cause flooding and damage to downstream areas**.

Measures Taken

- ✓ In March 2025, the "Guidelines for the Design of Agricultural Irrigation Pond Decommissioning Works" (formulated by the Disaster Prevention and Restoration Division, Rural Development Bureau at the Ministry of Agriculture, Forestry and Fisheries) were issued and **thoroughly informed**. The guidelines **clearly require confirmation, from the planning phase through to the design phase**, that stormwater can be safely drained downstream via the existing canals.
- ✓ In July 2025, a notice was issued to prefectures, providing **specific methods for assessing the impact on downstream areas**, and **requiring them to implement systematic countermeasures** when necessary.

3. Improper Payment of Incentive Grant for Accredited Vocational Training under the Support System for Job Seekers (Improprieties)

Ministry of Health, Labour and Welfare

0.52204 billion yen (Improper amount)

Overview of the System

- ✓ The Ministry of Health, Labour and Welfare (MHLW) has been implementing the Support System for Job Seekers, which provides vocational training and other employment-related support to unemployed persons who are not eligible for unemployment insurance and need assistance ("specified job seekers").
- ✓ Japan Organization for Employment of the Elderly, Persons with Disabilities and Job Seekers ("JEED") **examines whether the vocational training programs conform** to certain standards ("accreditation standards") based on the applications from training implementing institutions and **accredits** them as such (examined by the prefectural offices and accredited by the headquarters).
- ✓ The MHLW provides incentive grants for accredited vocational training (the "incentive grants") to training implementing institutions that have implemented accredited vocational training ("**accredited vocational training program**") appropriately.
- ✓ Instructors of vocational training must **meet certain accreditation standards**, such as **having at least 5 years of practical experience**. Training implementing institutions must submit "Instructors' Career Confirmation Forms" to JEED when applying for vocational training accreditation.

Results of the Audit

- ✓ The Board audited 984 accredited vocational training programs held by 26 training implementing institutions. These programs were selected from 4,323 programs for which incentive grants were paid between FYs 2019 and 2024 after examination by the Tokyo and Osaka prefectural offices.
- ✓ Training Implementing Institution "A" submitted documents, including "Instructors' Career Confirmation Forms," to JEED for 195 vocational training programs. The institution "A" claimed that **all 115 instructors had at least 5 years of practical experience and applied for accreditation**. JEED **accredited** the programs, and the institution "A" received a **total incentive grant of 0.63554 billion yen** for the 195 accredited vocational training programs.
- ✓ However, it was revealed that **45** of the 115 instructors had not met the accreditation standards, for example, some of **whom had no practical experience at all**, and that the institution "A" **had prepared false "Instructors' Career Confirmation Forms"** and submitted them to JEED.
- ✓ The **159 accredited vocational training programs**, in which the aforementioned 45 instructors were registered, **did not meet the accreditation standards**, rendering **the accreditation improper**.
 - ⇒ The **incentive grant of 0.52204 billion yen in total** received by the institution "A" for 159 incorrectly accredited vocational training programs was **improperly paid**.
(Repayment measures had been completed for 0.49827 billion yen. The right to demand repayment for the rest, 0.02376 billion yen, had expired due to the statute of limitations.)



4. Operation Status of the Fixed-wing Patrol Aircraft (P-1) Developed in Japan (Special Report to the Diet and the Cabinet)

Internal Bureaus and Departments of the Ministry of Defense, Maritime Staff Office, Acquisition, Technology & Logistics Agency, etc.

Background of the Audit

- ✓ The P-1 is a **fixed-wing patrol aircraft** of the Japan Maritime Self-Defense Force (JMSDF) designed for agile surveillance of extensive surrounding waters. It consists of an airframe, an engine, a variety of equipped electronic devices and onboard weapons. Research and development of the aircraft started in FY 1991 as the successor to the P-3C fixed-wing patrol aircraft and domestic development commenced in FY 2001. Approval for unit deployment was granted in March 2013, and the aircraft has entered into service from the same month onward. As of September 2024, a total of 35 P-1 aircraft were deployed across three air bases of the JMSDF.
- ✓ The Defense of Japan 2023 identified this aircraft as an example of a **non-operational status** due to the parts shortages.

Results of the Audit

- ✓ Contracts including the development and operation of P-1 concluded from FYs 1991 to 2023: 4,656 contracts in total, with the total contract amounts of **1.7766 trillion yen**.
- ✓ An examination of the operational status at two air bases at the time of the audit by the Board as well as that between the FYs 2019 and 2023 revealed that the number of aircraft available for missions was limited, that is, the P-1's **operational status was low**. The factors contributing to this were as follows:
 1. A certain number of F7-10 engines ^(Note) continuously became **unusable** due to performance degradation. (Note) The engine to be installed in the P-1, the development of which was completed in FY 2011.
 - ⇒ Most cases were attributed to the corrosion that had occurred in certain materials during the operational phase. For future P-1 capability enhancements, there seemed to be a room to **consider applying findings** from analyses of the cause of the corrosion failure **to the design**, as necessary.
 2. A certain number of "Equipped Electronic Device A" used for target intelligence collection were continually **unusable**.
Furthermore, after the approval of P-1 unit deployment, defects were identified such that certain onboard weapons might not be compatible with the airframe.
 - ⇒ Defects occurred during the development and operational phases of "Equipped Electronic Device A". It was considered that the impact upon installation **might not have been sufficiently predicted**.
 - The failure of the onboard weapons **might have been** due to **insufficient consideration of the specifications** related to their connection with the airframe during the development phase. Had the necessary specifications been accurately identified, it might have been possible to take countermeasures prior to the P-1's operational use.
 3. The Air Supply Depot, which procures replacement parts for aircraft, could not consistently obtain the necessary quantity of parts in time because it **did not grasp the situation in a timely manner**, for example, the situation concerning the lengthened period between order placement and delivery, resulting in **chronic shortages** of parts. Some aircrafts were in a non-operational state, but others had secured mobility by exchanging parts between aircrafts within individual units.

Findings

The Ministry of Defense **should work to improve the operability of the P-1** in cooperation with all organizations within the Ministry by taking the following points into consideration:

- ✓ To improve capacity of the P-1 further in the future, **consideration** should be given so that the accumulated knowledge from the past is fully utilized and **reflected in the design**. The test should be executed with necessary **test items** being **appropriately set** based on the knowledge (findings of items 1 and 2 above).
- ✓ To **consider more efficient and effective** procurement methods for replacement parts for aircrafts, etc. If the situation is not expected to improve, the Ministry of Defense should **make a concerted effort** to ensure that there **should not be a shortage** of replacement parts for aircrafts by considering ways to ensure a stable supply of replacement parts for aircrafts (findings of item 3 above).

5. Usage of Drones for Disaster Response (Measures Taken)

0.0748 billion yen (Improper amount)

Overview of the Drones for Disaster Response, etc.

- ✓ The Japan Ground Self-Defense Force (JGSDF) is equipped to use **drones for disaster response** to strengthen its preparedness for large-scale natural disasters by collecting information that contributes to prompt and precise lifesaving operations.
- ✓ Among the drones for disaster response, Acquisition, Technology and Logistics Agency procured 20 sets (40 drones) of UAV Disaster Drones Model I ("**Model I drones**") in March 2020 at a contract price of 0.0748 billion yen and they were delivered in July and August of the same year, based on the request of the JGSDF.
- ✓ When the Self-Defense Forces use mobile radio equipment (mobile stations) such as a Model I drone,
 - (1) The Minister of Defense must obtain **the Minister of Internal Affairs and Communications' approval** for the **designated frequencies**.
 - (2) The Self-Defense Forces must obtain the **Minister of Defense's approval** for the **establishment of the mobile station**.

Results of the Audit

- ✓ The Board audited the usage of the 20 sets of Model I drones to see if it was capable of coping with disasters.
- ✓ Since information on frequencies, antenna power (**frequency information**), of the Model I drones was required to obtain approval from the Minister of Internal Affairs and Communications, the JGSDF requested suppliers to submit a quality assurance document in the specifications. But such **frequency information was not obtained** because the JGSDF **did not** clearly **specify** what information was required for the quality assurance document **in the specifications**.
- ✓ The JGSDF requested the supplier to provide frequency information, and the supplier reported the upper limit, middle and lower limit of frequencies which could be used as measurement results. The JGSDF, however, **incorrectly interpreted** these **three frequencies** (upper limit, middle and lower limit) as **all the frequencies** that could be used by the Model I drones.
- ✓ The JGSDF received approval from the Minister of Internal Affairs and Communications for ~~the~~ only the three frequencies. But before the launch of the drones, **it was found that frequencies other than the three frequencies were to be used**, and the Model I drones were unusable.
- ✓ As the frequencies for the 20 sets of the Model I drones had not been approved by the Minister of Internal Affairs and Communications, the drones had remained **out of service for more than 4 years** since the delivery and **was unable to cope with disasters**.

Measures Taken

- ✓ After **obtaining frequency information** and receiving **approval from the Minister of Internal Affairs and Communications** in July 2025, the Ground Staff Office (GSO) made the 20 sets of the Model I drones **ready for use**.
- ✓ The GSO **revised the description guidelines of the specifications** in July 2025 and **informed** the relevant divisions and departments of the revised guidelines so that **frequency information can be obtained securely and in a timely manner** when procuring drones to be used for disaster response.

6. Status of Information Security Measures for Information Systems of Each Ministry and Agency (Special Report to the Diet and the Cabinet)

Cabinet, Digital Agency, etc.

Background of the Audit

- ✓ The use of information systems has expanded in operations and the services performed by the government ministries and agencies. As cyber security threats occur on a global scale, ensuring the **information security** of these systems is becoming more important than ever.
- ✓ The national cyber security measures are promoted by the Cybersecurity Strategic Headquarters established in the Cabinet, the National Center of Incident Readiness and Strategy for Cybersecurity (NISC; since July 2025, the National Cybersecurity Office) established in the Cabinet Secretariat, and the Digital Agency.
- ✓ The government ministries and agencies take information security measures based on **the Common Standards Group** ^(Note 1) at their own responsibility. Faced with the occurrence of information security incidents, further promotion of measures to ensure information security is required.
(Note 1) “Common Standards Group for Cybersecurity Measures for Government Agencies and Related Agencies (revised in July 2021)”, established by the Cybersecurity Strategic Headquarters as the standards for the countermeasures that should be taken by national government ministries and agencies.

Results of the Audit

1. The selected information systems for which ministries and agencies paid expenses for development and operation from FYs 2021 to 2023 ^(Note 2) were as follows:
 - 24 ministries and agencies (Main Offices): 224 systems (2,875 contracts, total amount paid: 843.97577 billion yen)
 - 16 ministries and agencies (Local Branch Bureaus and Departments): 128 systems (658 contracts, total amount paid: 36.21604 billion yen)(Note 2) The information systems used to perform critical tasks in many different situations, among the information systems developed and operated by the ministries and agencies as of the end of March 2024.
2. There were situations where **appropriate** information security measures **were not taken** due to lack of perception of the need to operate in accordance with the Common Standards Group at each ministry and agency as well as due to inadequate understanding of the basic countermeasures.
 - (1) The number of **systems without ID**, i.e., the systems not assigned an Information System ID ^(Note 3), amounted to 137 at 23 ministries and agencies in total.
The systems without IDs were **less likely to be subject** to software vulnerability countermeasures than the systems with IDs.
(Note 3) IDs that were assigned to each government information system by the Digital Agency as part of project supervision in order to implement more appropriate management of government information systems.
 - (2) Some entrustment contracts **lacked** some of the mandatory information security measures (such as measures to be implemented by the entrustee and sub-entrustee) which were to be stipulated in the procurement specifications.
3. Regarding the information security audits based on the Common Standards Group, some ministries and agencies **had not formulated** the audit implementation plan or **had not shared** with the information security audit managers the results of the audits conducted by the entrustees that were not included in the audit implementation plan.

Findings

- ✓ Each ministry and agency that is maintaining and operating systems without IDs should consider **obtaining IDs**, and the Digital Agency should consider **clarifying procedures** for obtaining IDs for existing information systems (Results of the Audit 2(1)).
- ✓ Each ministry and agency should **take information security measures** for entrustment in accordance with the Common Standards Group (Results of the Audit 2(2)).
- ✓ Each ministry and agency should **formulate** an audit implementation plan based on the Common Standards Group and conduct audits based on the plan. Furthermore, measures should be considered so that the results of audits outside the plan are **shared** with the information security audit managers (Results of the Audit 3).

7. Excessive Payment for Entrustment Fees and National Subsidies (Improprieties)

8 ministries and agencies

1.99527 billion yen (Improper amount)

Overview of the Project

- ✓ 19 local branch bureaus of 8 ministries and agencies (Note 1) implemented **83 commissioned projects** by executing entrustment contracts with JR East Marketing & Communications, Inc. (the “Company”) or having the Company as the implementing entity from FYs 2019 to 2023 (54 entrusted projects: entrustment fees totaling 6.8284 billion yen, 29 subsidized projects: national subsidies totaling 14.38456 billion yen).
(Note 1) Cabinet Office (main office), Ministry of Education, Culture, Sports, Science and Technology, Ministry of Health, Labor and Welfare, Ministry of Agriculture, Forestry and Fisheries, Ministry of Economy, Trade and Industry, Ministry of Land, Infrastructure, Transport and Tourism, Ministry of the Environment, and Children and Families Agency.
- ✓ The Company accounted **personnel expenses of those engaged** in commissioned projects as expenses eligible for entrustment fees and national subsidies. As for the personnel expenses for the 83 entrusted projects, the Company prepared **operational journals** and other documents as the evidence of the hours worked by each project's employee. These documents were prepared and stored as the basis for the calculation.

Results of the Audit

- ✓ The Company, in the 83 commissioned projects, **calculated personnel expenses not based on actual assignment** and entered them in the performance reports, by claiming employees who were not actually engaged in the commissioned projects, to have been engaged in the work, or by claiming employees who were engaged in the work to have been engaged in the work even during the hours they actually were not engaged in the work.
 - In the 71 commissioned projects (1), the Company **selected employees** to be counted in the calculation of personnel expenses, which **included employees who were not engaged in any work**, and prepared a list (**the assumed personnel expenses list**) indicating the assumed number of hours of engagement for each employee. The Company had each employee **prepare a false operational journal** that stated **engagement hours that were different from the facts**, stating that they had worked for the number of hours allocated in the assumed personnel expenses list.
 - As for the 12 commissioned projects (2), the assumed personnel expenses list was not prepared, instead, the Company had its employees **prepare a false operational journal** in the same manner as for the 71 commissioned projects.
 - In both cases (1) and (2), the Company **prepared false evidence** to match the contents of the false operational journal to avoid inconsistencies between the false operational journal and other evidence (documents like work hour statements).
- ✓ For 1,179 of the 1,524 employees who were reported to have been engaged in the work in the performance report, objective data were not submitted to verify the fact that they had been engaged in the work. On the other hand, for the remaining 345 employees, objective data were submitted to confirm their specific work details and it was confirmed that they had been engaged in the commissioned project for the number of hours.
- ✓ It was confirmed that 26 employees, who were separate from the 1,524 employees mentioned above, were actually engaged in the work, although they were not included in the calculation of personnel expenses at the time of preparation of the performance report.
- ✓ Based on calculations of personnel expenses for a total of 371 employees whose engagement in commissioned projects was objectively verified by documents, **a total of 1.99527 billion yen** for 82 commissioned projects (Note 2) was **excessively disbursed** (1.14311 billion yen for entrusted projects and 0.85216 billion yen for subsidized projects.)
(Note 2) Excluding one entrusted project that did not produce a difference.



8. Status of Use of the Counterpart Funds (Presentation of Opinions)

Ministry of Foreign Affairs
Japan International Cooperation Agency
1.15929 billion yen, 4.72883 billion yen
(Improper amount)

Overview of the Counterpart Funds

- ✓ The Ministry of Foreign Affairs and the Japan International Cooperation Agency (“JICA”) provide grant aid ^(Note 1) to governments in developing regions suffering from food shortages, without imposing the obligation of repayment.
(Note 1) Grant Aid (Food Aid), Grant Aid (Grant aid for Underprivileged Farmers, Food Production Increase Assistance until FY2005), and Non-Project Grant Aid (Grant Aid for Economic Structural Adjustment Support)
- ✓ Recipient governments may use funds recovered from the sale of goods procured with grant aid (**Counterpart Funds**) for projects that contribute to the country's economic and social development. The use of Counterpart Funds is expected to further promote developmental effects.
- ✓ The recipient government is required to deposit in a bank account, by a predetermined deadline, an amount in excess of its reserve obligation as Counterpart Funds, based on the Exchange of Notes, or grant agreement. The recipient government must also consult with the overseas diplomatic establishments of Japan ^(Note 2) regarding the use of the funds (**Consultation on Utilization**). The overseas diplomatic establishments are to approve the use of the funds after reviewing the details of the application by the recipient government.
(Note 2) Embassies or Consulates for the grant aid handled by the Ministry of Foreign Affairs, and overseas offices for the grant aid handled by JICA.

Results of the Audit

- ✓ Of the 115 projects in 15 countries (grant amount of 50.631 billion yen) for which the Ministry of Foreign Affairs concluded the Exchange of Notes from FYs 1992 to 2017, the balance of Counterpart Funds in the bank accounts of recipient governments as of the end of FY 2024 was **1.15929 billion yen for 31 projects in 7 countries**. For these funds 5 years or more had elapsed since the deadline of the reserve and the funds **had not been used for a long period of time**. It was deemed that in these cases, **further promoting developmental effects** through the Counterpart Funds **had not been realized in a timely manner**.
- ✓ Out of 89 projects in 42 countries (grant amount of 41.975 billion yen) for which JICA had concluded grant agreements between FYs 2008 and 2014, **4.72883 billion yen** in Counterpart Funds in **48 projects in 26 countries** (more than 6 years had elapsed after the deadline of the reserve) were in the same situation as above.
- ✓ 4 embassies were unaware of the presence of some of the Counterpart Funds in bank accounts of the recipient governments and had not confirmed the balances and usage of them. The Ministry of Foreign Affairs **had not established an organizational structure to track** the balance of Counterpart Funds and had not directed its embassies or consulates to check the balance of Counterpart Funds in a timely and appropriate manner.
- ✓ **No overseas diplomatic establishments were found to be encouraging** the recipient governments **to use** Counterpart Funds **early**.

Presentation of Opinions

- ✓ The Ministry of Foreign Affairs and JICA, by revising the guidelines or taking other appropriate measures, should clearly establish that the account balances and usage status of Counterpart Funds of the recipient governments can be appropriately checked by the overseas diplomatic establishments in a timely manner, and if they find Counterpart Funds that have not been used for a long period of time and are not planned to be used, they should **encourage** the recipient governments **to use them early**. **This matter** should be **thoroughly informed** to the overseas diplomatic establishments.
- ✓ The Ministry of Foreign Affairs should **establish an organizational structure to grasp, in a timely and appropriate manner**, the status of checking of the balance of Counterpart Funds by embassies or consulates.
- ✓ The Ministry of Foreign Affairs and the headquarters of JICA should **instruct** the overseas diplomatic establishments about **encouraging early use** of Counterpart Funds by the recipient government.

9. Status of SME Business Transformation Promotion Project (Improprieties and Presentation of Opinions)

The Small and Medium Enterprise Agency
Organization for Small & Medium Enterprises and
Regional Innovation, JAPAN
0.34461 billion yen, 2.47315 billion yen (Improper amount)

Overview of the Project

- ✓ The Organization for Small & Medium Enterprises and Regional Innovation, JAPAN (the “**Organization**”) implements the business transformation promotion project for small and medium-sized enterprises (“**transformation support project**”) that are expanding their business scale through initiatives such as business development in new fields, transformation of business, industry, and business category, and business reorganization (“**business restructuring**”) (such **SMEs** are called as “implementing entities”) (such business of SMEs are called “**restructured business**”). This project is carried out by **providing subsidies for business reorganization** through the secretariat, using the fund established with government subsidies from the Small and Medium Enterprise Agency as a source fund (subsidies: **1.37401549 trillion yen for 60,490 businesses of 60,223 implementing entities** (from the start of operations in FY 2021 to the end of FY 2024)).
- ✓ In principle, disposal-restricted properties ^(Note 1), such as property acquired in a restructured business, should **be used only for** the business restructuring described in the business plan (**planned new business**) (although it must be judged based on the content of the business plan; if the disposal-restricted properties are used for an existing business^(Note 2), it is basically considered as being used outside the scope of the intended purpose).
(Note 1) Machinery and equipment with an acquisition price of 500,000 yen or more (Note 2) Existing business and new business that is different from the planned new business
- ✓ The implementing entities should submit a “Report on the Commercialization Status and Intellectual Property Rights” (“Report on the Commercialization Status”) for five years after the end of the fiscal year to which the business completion date belongs (fiscal year in which the subsidized business is completed), describing the commercialization status of the business restructuring for the most recent one-year period.
- ✓ The Small and Medium Enterprise Agency will perform an analysis related to the performance targets of the transformation support project based on the contents of the report, as a verification of effectiveness.

Results of the Audit

1. In **20 businesses** of 20 implementing entities (total subsidy amount: 0.42972 billion yen), (1) subsidies for business restructuring were **granted excessively** based on false performance reports that did not evidence the actual provision of services, (2) **expenses that were not eligible for subsidies were included** in the business expenses to be subsidized, and (3) **disposal-restricted properties were disposed of without authorization** (improper amount: **0.34461 billion yen**) [Improprieties].
2. At the time of the audit, 317 items of disposal-restricted properties (total subsidies corresponding: 1.62323 billion yen) in 83 businesses of 83 implementing entities ^(Note 3) were **not used for planned new business**, such as being used only for existing businesses, or were used not only for planned new business but **also for existing businesses**. (Note 3) Those including 14 implementing entities of the item 1 above
⇒While the Organization had conducted only a small number of ad-hoc surveys ^(Note 4), it had not taken measures to grasp the status of use of the disposal-restricted properties without visiting the site, and **had not fully grasped the status of the use many implementing entities**.
(Improper amount: **1.62323 billion yen**) [Presentation of opinions] (Note 4) On-site surveys the Organization may conduct after the completion of the business restructuring.
3. The **commercialization status of business restructuring was not properly reported** for a net total of **49 businesses** of 49 implementing entities, for example, reporting sales in the Report on the Commercialization status even though there were no actual sales of planned new businesses, and reporting the amount of sales including sales from existing businesses in the Report on the Commercialization Status (improper amount: **1.32329 billion yen**). [Presentation of opinions]

Presentation of Opinions

- ✓ The Organization, in light of the situation where the use of the disposal-restricted properties for existing businesses is likely to occur, should **inform** the implementing entities that, in principle, the properties **must be used only for planned new businesses** and that they **must take the specified procedures** when they use the properties for purposes other than those intended. The Organization should also **consider measures to accurately grasp the status of the use** of the disposal-restricted properties so that appropriate measures can be taken in case of being used for anything other than the intended purpose, such as requiring the payment of the residual book value (opinion on the item 2 above).
- ✓ The Organization should **review and revise the reporting methods** of the Report on the Commercialization Status **to ensure that the commercialization status** of business restructuring **is appropriately reported** by the implementing entities (opinion on the item 3 above).
- ✓ The Small and Medium Enterprise Agency should provide the Organization with **guidance and advice** to ensure that the aforementioned measures are appropriately taken.

10. Application of the Simplified Consumption Tax System to Corporations with a Large Amount of Taxable Sales (Report on Specific Matters)

Background of the Audit

- ✓ With respect to consumption tax, the **standard tax system** calculates consumption tax by deducting the amount of consumption tax on taxable purchases from the amount of consumption tax on taxable sales. As exception, in consideration of the administrative burden on Small and Medium Enterprises (SME), the **simplified tax system** calculates consumption tax using deemed purchase rate. The difference in the tax amounts (**consumption tax difference**) may occur between these tax amounts.
- ✓ Business enterprises, in principle, can apply the simplified tax system to taxable periods^(Note 1) in which **taxable sales are 50 million yen or less** in the **base period** (the second preceding fiscal year before the taxable period). (Note 1) It includes cases where there is no base period
- ✓ In determining whether or not the simplified consumption tax system is applicable, different indices are used; in the case of **incorporation-type company split**^(Note 2), an **index other than taxable sales in the base period** should be used, and in the case of **absorption-type merger**^(Note 3), **taxable sales in the base period of the absorbing corporations** should be used in accordance with the standard rule.
(Note 2) A corporation transfers all or part of its rights and obligations with respect to its business to a newly established corporation as a result of a split (successor corporation in incorporation-type company split). (Note 3) A corporation merges with another corporation and all the business of the corporation that ceases to exist as a result of the merger (merged corporation) is succeeded by the corporation that continues to exist after the merger (absorbing corporation).

Results of the Audit

- ✓ The Board audited a total of 4,796 corporations that applied the simplified tax system in FY 2021 or FY 2022 and had taxable sales in excess of 100 million yen.
 - 1. If the **tax index as for the successor corporation in the incorporation-type company split** had been used to determine the applicability of the **simplified consumption tax system**, among the 172 corporations that had merged or split from FYs 2019 to 2022, 141 corporations would be ineligible for the simplified tax system because their taxable sales in the period corresponding to the base period of the merged corporation **exceeded 50 million yen**. Among these, an estimated consumption tax difference could be calculated for 116 corporations, and **105 corporations** of them reported **lower consumption tax amounts than the amounts that would have been imposed under the standard tax system**. The total estimated consumption tax difference was **2.29214 billion yen** (three corporations had an estimated consumption tax difference in excess of 100 million yen).
 - 2. If the application of the simplified tax system was analyzed using **two indices** other than taxable sales in the base period in **assessing the consumption tax liability** ((1) taxable sales in the period corresponding to the base period of the entity subject to the assessment^(Note 4) and (2) taxable sales in the specified period^(Note 5)):
(Note 4) Among corporations that do not have a base period, other persons that control the corporation that meets the specified requirements as of the first date of the fiscal year.
(Note 5) The period from January 1 to June 30 of the previous year for individual entrepreneurs, and the six-month period after the first day of the previous fiscal year for corporations.
 - As for (1) above, out of a total of 243 corporations that had no base period, taxable sales related to the index were identified for 75 corporations. Of these, an estimated consumption tax difference could be calculated for **62 corporations**, and all of them were assessed at a **lower amount of consumption tax compared to the standard tax system**. The estimated consumption tax difference was **0.58456 billion yen** in total (most of the entities subject to the assessment were corporations controlled by a single who owned 100% of the corporation's outstanding shares).
 - As for (2), out of a total of 48 corporations whose total taxable sales or total amount of salaries during the specified period both exceeded 50 million yen, an estimated consumption tax difference could be calculated for **31 corporations**, and all of them were assessed at a **lower amount of consumption tax compared to the standard tax system**. The estimated consumption tax difference was **0.31143 billion yen**.
- ⇒ With regard to 1. and 2. above, excluding duplicates, a total of **185 corporations paid less consumption tax than the standard tax system**, and the estimated consumption tax difference was **2.90078 billion yen** in total.

Findings

- ✓ The Ministry of Finance should **review** the application of the simplified consumption tax system to corporations with large amounts of taxable sales **from a variety of perspectives to make it more appropriate**, taking into consideration the purpose of the simplified tax system, to reduce the administrative burden on SMEs.

11. Size of the Special Fund for Management Stabilization-Related Guarantee (for Great East Japan Earthquake Recovery Emergency Guarantee) Held by Japan Federation of Credit Guarantee Corporations (Demand for Measures)

Ministry of Economy, Trade and Industry

20.36589 billion yen
(Improper amount)

Overview of the Management Stabilization Fund (for Great East Japan Earthquake Recovery Emergency Guarantee)

- ✓ The Small and Medium Enterprise Agency provides the Subsidies for Management Stabilization-Related Guarantee and Countermeasure Expenses (“**Management Stabilization Subsidies**”) to Japan Federation of Credit Guarantee Corporations (the “**Federation**”) and the Federation creates the Special Fund for Management Stabilization-Related Guarantee (“**Management Stabilization Fund**”).
- ✓ The Small and Medium Enterprise Agency **established** a nationwide **program of Great East Japan Earthquake Recovery Emergency Guarantee** in May 2011 and **granted 69.7 billion yen of Management Stabilization Subsidies**.
- ✓ The Federation creates and manages a fund (**Management Stabilization Fund (for Great East Japan Earthquake Recovery Emergency Guarantee)**) for disbursement of the aforementioned Management Stabilization Subsidies to the Credit Guarantee Corporations (“**CGCs**”) ^(Note) as compensation for losses related to the Great East Japan Earthquake Emergency Guarantee (“**Earthquake Emergency Guarantee**”).
(Note) Organizations that guarantee debt (i.e., providing credit guarantees) for loans which Small and Medium Enterprises (SMEs) receive from financial institutions.
- ✓ The Small and Medium Enterprise Agency has **gradually narrowed the scope** of its Earthquake Emergency Guarantees since FY 2013 in order to focus on restoration and recovery efforts in the affected areas.
- ✓ In February 2020, the Ministry of Economy, Trade and Industry (METI) requested the Federation to review the size of the Management Stabilization Fund (for Earthquake Emergency Guarantees) stating that the balance of the fund exceeded the required amount ⇒ The Federation **paid 30 billion yen that was not expected to be used to the national treasury (FY 2019 Payment to National Treasury)**.

Results of the Audit

- ✓ The Board audited the implementation of Earthquake Emergency Guarantees at the Small and Medium Enterprise Agency and the Federation. The Board also audited the demand for Earthquake Emergency Guarantees at 9 CGCs.
- ✓ The balance of the Management Stabilization Fund (for Earthquake Emergency Guarantees) at the end of FY 2024 was **31.9 billion yen**. The amount disbursed from the fund was **1.4 billion yen** for the period from FYs 2020 to 2024.
- ✓ As 14 years had passed since the Great East Japan Earthquake, the scope of the Earthquake Emergency Guarantees had been gradually narrowed ⇒ Approval for the Earthquake Emergency Guarantees had **reduced significantly**.
(FY 2011: **79,404 cases, 1.8157 trillion yen** ▶ FY 2024: **2,135 cases, 59.1 billion yen (2.6% of the number of cases and 3.2% of the amount of FY 2011)**)
- ✓ METI had not requested the Federation to review the size of the Management Stabilization Fund (for Earthquake Emergency Guarantees) since the FY 2019 Payment to the National Treasury. ⇒ Funds that need to be set aside in the Management Stabilization Fund (for Earthquake Emergency Guarantees) **had not been inspected and verified**.
- ✓ The Board estimated the amount of compensation for losses required for Management Stabilization Fund (for Earthquake Emergency Guarantees) for the future. ⇒ The estimated amount of compensation for losses after FY 2025 was 11.54106 billion yen, and it was expected that the difference of **20.36589 billion yen** from the fund balance of 31.90695 billion yen at the end of FY 2024 would **not be effectively utilized** because the future use of the fund was extremely unlikely.

Demand for Measures

- ✓ METI should instruct the Federation to thoroughly examine the projected usage of the Management Stabilization Fund (for Earthquake Emergency Guarantees) and to **review the fund so as to ensure that it is appropriately sized**. And then, METI should request the Federation to **promptly pay any amount of funds held in excess of the required amount into the national treasury**.
- ✓ METI should instruct the Federation **to review** the size of the Management Stabilization Fund (for Earthquake Emergency Guarantees) **in a timely and appropriate manner** and, based on the results of the review, **make appropriate inspections and verifications**.