

**THEMATIC COMPILATION OF RELEVANT INFORMATION SUBMITTED
BY JAPAN**

ARTICLE 9, PARAGRAPHS 2 AND 3 UNCAC

MANAGEMENT OF PUBLIC FINANCES

JAPAN (SIXTH MEETING)

In relation to measures to promote transparency and accountability in the management of public finances, States parties and signatories may wish to cite and describe measures that:

- Provide for transparent and public procedures for adopting of the national budget, that specify the type of information required as part of the submission to the legislature, with opportunity for public input and debate;

The Constitution requires the Diet consideration and determination to exercise the national budget, while the Cabinet is obliged to prepare the budget. Pursuant to the Article 16 of the Public Finance Law, the budget consists of:

- i. General Budget Provisions
- ii. Revenue and Expenditure Budget
- iii. Continued Expense
- iv. Approved Carry-over Expense
- v. Contract Authorization

The related Articles are as follows:

The constitution

Article 83

The power to administer national finances shall be exercised as the Diet shall determine.

Article 86

The Cabinet shall prepare and submit to the Diet for its consideration and decision a budget for each fiscal year.

The Public Finance Law

Article 16 (Contents of budget)

The Budget shall consist of General Budget Provisions, Revenue and Expenditure Budget, Continued Expense, Approved Carry-over Expense and Contract Authorization.

Article 17 (Preparation of documents on the estimate of Revenue and Expenditure, etc.)

(1) The President of the House of Representatives, the President of the House of Councilors, the Director of the Supreme Court, and the Director of the Board of Audit shall prepare documents on the estimate of Revenue, Expenditure, Continued Expense, Approved Carry-over Expense and Contract Authorization under their jurisdiction and send them to the Cabinet for the convenience of budget control and adjustment each fiscal year.

(2) The Prime Minister and the Ministers of the respective Ministries shall prepare documents on the estimate of Revenue, Expenditure, Continued Expense, Approved Carry-over Expense and Contract Authorization under their respective jurisdiction each fiscal year and send them to the Minister of Finance.

Article 18 (Preparation of the provisional estimate of revenue and expenditure, etc.)

(1) The Minister of Finance shall examine the estimate in the preceding Article, make the necessary adjustments, and make the provisional estimate of Revenue, Expenditure, Continued expense, Approved Carry-over Expense and Contract Authorization to get the Cabinet determination.

(2) Before the Cabinet makes the decision in the preceding paragraph, it must ask for the opinions of the President of the House of Representatives, the President of the House of Councilors, the Director of the Supreme Court, and the Director of the Board of Audit with regard to the provisional estimate of Expenditure of the Diet, the Court, and the Board of Audit.

Article 20 (Preparation of a detailed statement of Revenue Budget and requisition of Estimate of Appropriations, etc.)

(1) The Minister of Finance shall prepare a detailed statement of Revenue Budget every fiscal year in accordance with the Cabinet determination referred to in Article 18.

(2) The President of the House of Representatives, the President of the House of Councilors, the Director of the Supreme Court, and the Director of the Board of Audit, the Prime Minister, and the Ministers of the respective Ministries (hereinafter referred to as "heads of the respective Ministries and Agencies") shall, within the amount of the provisional estimate decided by the Cabinet as referred to in Article 18, prepare the requisition of

Estimate of Appropriations, the requisition of Continued Expense, the requisition of Approved Carry-over Expense and the requisition of Contract Authorization (hereinafter referred to as "requisition of Estimate of Appropriations, etc".) each fiscal year, and send them to the Minister of Finance.

Article 21 (Framing of the Budget, the Cabinet Decision)

The Minister of Finance shall prepare the budget on the basis of the detailed statement of Revenue Budget and the requisition of Estimate of Appropriations, etc. of the House of Representatives, the House of Councilors, the Court, the Board of Audit, the Cabinet, the Prime Minister's Office and the respective Ministries (hereinafter referred to as "respective Ministries or Agencies"), and ask for the Cabinet decision.

Article 27 (The timing of the budget submission to the Diet)

The Cabinet shall customarily present the Budget for each fiscal year to the Diet during January of the previous fiscal year.

- Ensure that reporting on revenue and expenditure is public, timely and regular, and that there are consequences for the responsible agency and officials for failure to report at all or in a timely fashion;

In accordance with the Constitution and the Public Finance Law, the Cabinet is obliged to annually report to the Diet and the public on the state of national finances right after the approval of the Budget for the current fiscal year, which contains;

- i. the Budget
- ii. the Settlement of Revenue and Expenditure of the preceding fiscal year before last
- iii. the amounts of public bonds, borrowings, State Properties on hand
- iv. other general matters concerning public finance

With regard to the Settlement of Revenue and Expenditure, the Cabinet customarily presents the Settlement of Revenue and Expenditure audited by the Board of Audit to the ordinary session of the Diet to be held in the subsequent fiscal year.

The Constitution and the Public Finance Law do not suppose that the Government fail to report against these articles. Public officers are, however, mandated by the Constitution and laws to respect all of laws and regulations.

The constitution

Article 91

At regular intervals and at least annually the Cabinet shall report to the Diet and the people on the state of national finances.

The Public Finance Law

Article 46 (Report on fiscal conditions to the general public and the Diet)

(1) In case where the Budget is approved, the Cabinet shall immediately report to the general public on the Budget, the Settlement of Revenue and Expenditure of the preceding fiscal year before last, the amounts of public bonds, borrowings, State Properties on hand, and other general matters concerning public finance, by means of prints, conferences, etc.

(2) Except those provided in the preceding paragraph, the Cabinet shall, at least every quarter, report to the Diet as well as to the general public on the situation of the appropriations, treasury, and others concerning public finance.

The Public Finance Law

Article 40 (Timing of submission of the Settlement of Revenue and Expenditure to the Diet)

(1) The Cabinet shall customarily present the Settlement of Revenue and Expenditure audited by the Board of Audit to the ordinary session of the Diet to be held in the subsequent fiscal year.

- Ensure that effective system of accounting and auditing is put in place and that there is effective oversight over the budgetary revenue and expenditure with regular training and accreditation requirements for government accountants and auditors;

1. The Japanese public accounting system and audit system

The procedures of the Japanese public accounting system are prescribed in detail in laws and regulations, such as the Public Finance Act, the Public Accounting Act, etc. Strong checks and internal control mechanisms are incorporated into the accounting system in each agency so as to ensure that the prescribed procedures are complied with without fail. For example, [i] a person in charge of concluding a contract, [ii] an administrator that supervises the fulfilment of the contract, [iii] a person who verifies the fulfilment of the contract, [iv] a person who makes payment decisions, and [v] a person who handles the payment process, are different basically, and a system of mutual checks and balances works accordingly.

This process enables to find mistakes easily, and make criminal acts more difficult to commit and more easily detected.

As for the oversight of the accounting, each Ministry and Agency has its internal audit system. Ministry of Finance periodically checks accounting of the each ministry. The Board of Audit (hereinafter referred to as ‘the Board’), as an independent Constitutional entity audits State accounts as well as accounts of public organizations and other entities as stipulated by law, also supervises public accounting. The establishment of multi-layered control and check system ensures the effective oversight on the public accounting in Japan.

Furthermore, in order to enable the Diet to certainly control national finances, the Public Finance Law requires cash-basis accounting which provides the information of cash receipts and payments and gross budget which shows total revenue and expenditure in a fiscal year.

The Public Finance Law

Article 2 (Definition of income and disbursement, revenue and expenditure)

(1) The term “income” as used in this Law shall mean cash receipts that serve as the source of payment to meet the various demands of the State, while “disbursement” shall mean cash payments to meet the various demands of the State.

Article 14 (The principle of gross budget)

Revenue and expenditure of a fiscal year shall all be included in the budget.

The constitution

Article 90

(1) Final accounts of the expenditures and revenues of the State shall be audited annually by a Board of Audit and submitted by the Cabinet to the Diet, together with the statement of audit, during the fiscal year immediately following the period covered.

2. Accreditation requirements for government accounting officers and auditors

Most of the national government officials are recruited through the open and equal examinations implemented by the National Personnel Authority.

Accreditation of accountancy is not required to serve as accounting officer or auditor. They acquire necessary knowledge and capability through in-house training programs, on the job training, etc. which will be described in 3.

3. Training for accounting officials in the government and training for auditors in the Board

(1) Each ministry and agency plans and conducts training programs systematically such as programs for newly recruited staff, Assistant Directors, Directors, as well as programs to acquire specific knowledge. In general, training for officers in charge of accounting is included in the structured training programs.

(2) The accounting training program targeting for accounting officials in all national government offices is implemented by the Ministry of Finance to level up professional knowledge and skills on public accounting.

(3) The Board also conducts systematic training programs targeting to different level of staff as well as programs intended to acquire specific professional skills and knowledge required for auditors of the Board. After recruitment, new staff members undergo extensive **trainings** and examinations in various fields to acquire the necessary knowledge and skills, and then become auditors after several years' **audit experience**. Auditors also have to attend **advanced professional trainings** in order to cope with more diversified and specialized administrative activities of the auditees.

4. Efforts to reinforce the auditees' internal audit and internal check system

In order to enhance and reinforce the auditees' internal audit and internal check system and prevent recurrence of the audit findings, the Board organizes the training courses and briefings. The internal audit of each ministry and agency is expected to work efficiently for appropriate budget execution together with the external audit by the Board.

- Ensure that effective and efficient system of risk management and internal control is put in place, with clear allocation and description of the roles and responsibilities and description of how the offices responsible for risk management and internal control maintain, organize and store records;

The Public Accounting Act prescribes the execution and management of the budget. In accordance with the Act, officials responsible for income, obligations, disbursement, contracts and custody of the treasury fund are separately appointed. This enables effective risk management and internal control. In addition, the Act on the Responsibility of Government Employees Executing the Budget requires employee who execute budget with violation of laws, regulation or budget to recompense for a loss by the violation.

- Provide for corrective action in case of failure to comply with the legal requirements, with description of the procedure for oversight and implementation.

1. As explained above, it is construed that the Constitution of Japan and the Board of Audit Act require the Board to conduct audits to highlight problems and recommended

corrective actions. If there are items that the Board finds, in the course of its audit, to violate laws and regulations on account management or to be improper, it may immediately present its opinions on the account management to, or demand appropriate measures with regard to the account management from the head of the relevant department or from the relevant parties, and may have them take measures to rectify and improve subsequent management.

2. In addition, if, as a result of its audit, the Board finds there to be matters necessitating improvement with regard to laws and regulations, systems or administration, it may present its opinions to, or demand measures for improvement from, the competent authorities or other responsible parties.
3. The Board follows up the audit findings of Improprieties, Presented Opinions and Demanded Measures and so on reported in the Audit Report, by collecting reports from the auditees as to whether the damages incurred to the State or the organization have been rectified, as to how the officials in charge are disciplined, or as to what measures have been taken to prevent any recurrence. The collection will continue until the case has been completed.

(1) Have the damages of the State been rectified?

The Board grasps the following matters for the improprieties in the Audit Report paying attention to whether improprieties are completely rectified:

- 1 Additionally imposed tax
- 2 Repayment of insurance benefits and State subsidies
- 3 Advanced redemption of loans
- 4 Remedial works
- 5 Others

The Board reports the status of remedial actions in the Audit Report.

(2) Has the Improvement for preventing recurrence been made?

In regard to Improprieties, Presented Opinions and Demanded Measures in the Audit Report, the Board always strives to see if the auditees have taken measures to rectify or improve the current system, such as amendments to the related laws and regulations, revision of manuals and specifications and improvements in administrative procedures, and if the auditees have provided the officers in charge with proper advice via official documents, meetings and training courses, internal audit, other examinations and so on.

The results of the follow-up on Presented Opinions and Demanded Measures are required to be described in the Audit Report, usually for the following fiscal year.

Also, the Board continually follows up Measures Taken until the Board confirms the measures have been duly implemented, and describes the results of the follow-up in the Audit Report.

(3) What disciplinary actions have been taken against the officials in charge?

The Board grasps what kind of disciplinary actions are taken by the Ministries and Agencies etc. in charge against the officials (responsible persons and their supervisors) in charge of the improprieties in the Audit Report.

4. Besides the audit, the Board carries out the following audit-related activities.

(1) Adjudication on the liability for indemnity

If an official responsible for cash handling, properties/goods management or budget execution has been involved in a loss or damage to cash or goods under his or her control, or otherwise has made disbursement in violation of the laws and regulations or the approved budget, resulting in a loss to the State, the Board examines whether this was due to lack of due professional care, intentional or through gross negligence and adjudicates whether or not the official is liable for indemnity.

If the Board adjudicates that the person is liable for indemnity, the Minister to which the official belongs shall order him to pay the indemnity.

(2) Demand for disciplinary action

If the Board deems, as a result of audit, that an official in charge of financial transaction of the State has caused a grave loss to the State intentionally or through gross negligence, or that a budget executing official has made disbursement in violation of the laws and regulations or the approved budget, either intentionally or through gross negligence, and caused a loss to the State, the Board may demand a disciplinary action against the official from the Ministers. The Board is also authorized to execute the same right in case where an official in charge of financial transactions of the State neglects to submit statements of accounts or vouchers and other supporting documents to the Board.

Under the Article 33 of the Board of Audit Act, if the Board concludes, as a result of its audit, that an official who handles accounting for the State has committed a crime in the course of duty, it shall notify the Public Prosecutors Office of the case.

In relation to civil and administrative measures to preserve the integrity of accounting books, records, financial statements or other documents related to public expenditure and revenue to prevent the falsification of such documents, States parties and signatories may wish to cite and describe measures that:

- Put in place a mechanism for recording, storing and preserving the integrity of accounting books, records, financial statements and other related documents, including national archiving or other recordkeeping institution; and sanctioning for falsification;

The Public Accounting Act requires officials responsible for income, obligations, disbursement, contracts and custody of the treasury fund to keep the books, and to

prepare the reports and accounts. Ministry of Finance integrates the records and, consequently, settles revenue and expenditure. Additionally, financial statements on the accrual basis are annually disclosed for the public reference.

The Public Accounting Act

Article 47 (Books and reports)

(1) The Minister of Finance, Revenue Collecting Officer, the heads of each Ministries or Agencies, Obligating Officer, the Disbursing Officer, the accordance with the provisions of the Cabinet order, keep the books, and prepare the reports and accounts to send to the Minister of Finance and the Board of Audit.

- Define a general schedule of records retention and disposition, including controls or security standards;
- Establish policies and procedures regarding the storage and preservation of electronic records, including security measures;