

**HONG KONG SPECIAL ADMINISTRATIVE REGION**

**Audit Commission**

**Annual Report 2007-08**

**Audit Commission  
Hong Kong  
June 2008**



**AUDIT COMMISSION**  
**ANNUAL REPORT 2007-08**

**Contents**

	<b>Page</b>
<b>DIRECTOR'S MESSAGE</b>	1
 <b>CHAPTER 1: ROLE OF THE AUDIT COMMISSION</b>	
 Independence	3
The Public Accounts Committee and the Value for Money Audit Guidelines	3
Reporting to the Legislative Council	4
The Government Minute	5
Organisation of the Audit Commission	5
Grade structure of the Audit Commission	6
Looking ahead	6
 <b>CHAPTER 2: REGULARITY AUDIT</b>	
 Introduction	7
The year under review	8
Looking ahead	10

**CHAPTER 3: VALUE FOR MONEY AUDIT**

Introduction	11
The year under review	12
Looking ahead	16

**CHAPTER 4: CORPORATE SERVICES**

Introduction	17
The year under review	17
Looking ahead	28

**APPENDICES**

A : The 82 accounts certified in 2007-08	29
B : Vision, Mission and Values	33
C : Key Targets and Indicators	35
D : Calendar of key events (1 April 2007 to 31 March 2008)	36
E : Acronyms and abbreviations	38

## **DIRECTOR'S MESSAGE**

I am pleased to present the Annual Report of the Audit Commission for the financial year 2007-08. This has been another successful year for the Commission. We have delivered independent and quality public sector audit services.

### **The year under review**

2. The Commission's mission is to help the Government enhance public sector performance and accountability. The identification of failures may not be the best way to achieve this mission. It is imperative that we play a positive and constructive role in conducting our audit work. We aim at making value-added recommendations to help the audited bodies achieve better value for money (VFM), e.g. by improving their governance and enhancing accountability and cost-effectiveness. In 2007-08, we issued a number of high-profile VFM audit reports, notably the reviews of the administration of Hong Kong Applied Science and Technology Research Institute Company Limited, the corporate governance and administrative issues of the Hong Kong Tourism Board, and outsourcing of the management of public rental housing estates. In all these reviews, we made great efforts to help the auditees identify lessons learnt and achieve better VFM. Our recommendations were generally accepted by the Administration and the audited bodies. Details about these reviews are covered in Chapter 3.

3. Apart from VFM audit, the Commission conducts regularity audit to help the Government enhance governance, accountability and transparency. In 2007-08, a total of 82 accounts were audited and certified, including the General Revenue Account, the five Trading Funds, the Exchange Fund, and the Hong Kong Housing Authority. The implementation of accrual reporting is a key initiative of the Government for improving its financial accountability and transparency. We have been keeping a close watch on the development of accrual accounting in the Government, as it will have wide ramifications on our regularity audit work. Phase 1 of the new Government Financial Management Information System was implemented in December 2007. We have taken necessary measures to deal with its impact on our audit work. We will continue to keep in view further development of the system, which will affect the accountability and financial management processes in the Government. Chapter 2 gives more details about our regularity audit work.

4. The Commission, with over 160 years of history, is one of the oldest government departments in Hong Kong. The standing of the Commission is due to the professionalism, skill and commitment of our staff in achieving our mission. Our work is held in high esteem and draws extensive media coverage. To continue keeping in pace with new developments and best practices of the accounting and auditing professions, we take opportunities to share experience with professional bodies in these fields. For instance, in November 2007, we participated in the 19<sup>th</sup> Congress of the International Organisation of Supreme Audit Institutions held in Mexico City. During the Congress, the themes "Management, accountability and audit of public debt" and "Performance assessment systems based on key indicators" were discussed. We also received many visitors from the

Mainland and overseas, including a delegation of the Council of Federation of the Federal Assembly of the Russian Federation. Details are set out in Chapter 4.

## **The way ahead**

5. It has been our key focus in the past few years to step up our efforts to improve the organisation and capability of the Commission. We successfully revamped the structure of the Commission in September 2005 to facilitate the accomplishment of our mission more effectively and efficiently. We have been keeping in view the merger of the Auditor and Examiner grades. Our staff are encouraged to pursue lifelong learning to keep pace with the changing environment and meet the challenges ahead.

6. It is only possible to achieve our mission with the commitment, dedication and skill of all staff of the Commission. Their efforts enable the Commission to deliver quality services in both regularity and VFM audits and earn respect from the public as a first class audit organisation. I would like to thank them for their contributions and professionalism. I am grateful too for the positive response from the Legislative Council and the public to our work over the past year. I would also like to acknowledge with gratitude the full cooperation rendered by the bureaux, departments and public organisations audited, and their acceptance of my audit observations and recommendations.

7. We will continue to strive for excellence in the provision of independent public sector audit services in the coming year.

Benjamin Tang  
Director of Audit  
June 2008



**Mr Benjamin Tang**  
**Director of Audit**

## CHAPTER 1: ROLE OF THE AUDIT COMMISSION

### Independence

#### *The Basic Law and the establishment of the Audit Commission*

1.1 Since 1 July 1997, Hong Kong has become a special administrative region of the People's Republic of China. According to [Article 58 of the Basic Law of the Hong Kong Special Administrative Region](#), a Commission of Audit shall be established in the Hong Kong Special Administrative Region (HKSAR), which shall function independently and be accountable to the Chief Executive of the HKSAR. The former Audit Department (“核數署”) was renamed the Audit Commission (“審計署”) with effect from 1 July 1997. The post title of the Director of Audit in Chinese was also changed from “核數署署長” to “審計署署長” with effect from the same date.

#### *The Audit Ordinance*

1.2 A key milestone in the development of government auditing in Hong Kong was the enactment of the [Audit Ordinance \(Cap. 122\)](#) in December 1971. The Ordinance provides for the duties and powers of the Director of Audit and for the auditing of and reporting on the public accounts. The enactment of the Ordinance established the statutory framework for the audit and certification of the accounts of the Government. The Ordinance confers wide powers on the Director in carrying out his statutory duties. He has wide powers of access to the records of departments and he can require any public officer to give an explanation and to furnish such information as he thinks fit to enable him to discharge his duties. In the performance of his duties and the exercise of his powers under the Ordinance, the Director is not subject to the direction or control of any other person or authority. The audit work carried out in accordance with the Ordinance is generally known as regularity audit.

#### **The Public Accounts Committee and the Value for Money Audit Guidelines**

1.3 Prior to the enactment of the Audit Ordinance in December 1971, audit examination was predominantly a “regularity” type audit, designed primarily to give the assurances that the accounts were correct. Few value for money (VFM) audits were conducted. Initially, developments in VFM audit focused on the examination of capital works contracts. This was because, by reason of their nature, size, escalation in costs, cancellation or curtailment, these projects might involve waste, extravagance or even fraud. In the mid-1970s, VFM audit was extended to cover organisations in receipt of government grants.

1.4 In 1978, the [Public Accounts Committee](#) (PAC) was established as a standing committee of the [Legislative Council](#) (LegCo). The PAC considers the reports of the Director of Audit on the accounts of the Government, on such other accounts required to be laid before LegCo as the PAC may think fit, and on any matter incidental to the performance of the Director's duties or the exercise of his powers as the PAC may think fit. The PAC

also considers VFM audit reports of the Director laid on the table of LegCo. It may invite Government officials and senior staff of public organisations to attend public hearings to give explanation, evidence or information, or any other person to assist it in relation to such explanation, evidence or information if deemed necessary. The establishment of the PAC was an important milestone in the development of public accountability in Hong Kong.

1.5 On 13 November 1984, the PAC held its first public hearing on the Director of Audit's report. Since then, members of the press and of the public have been admitted as spectators at meetings of the PAC. The opening up of PAC hearing is another important milestone in the development of public accountability in Hong Kong.

1.6 In January 1986, the PAC noted that the boundaries of the Director of Audit's remit to examine and report on policy implementation, particularly in relation to VFM studies, had not been clearly defined. A set of VFM Audit Guidelines was agreed between the PAC and the Director and accepted by the Government. In November 1986, a paper (*"Scope of Government Audit in Hong Kong — 'Value for Money' Studies"*) was presented to LegCo by the Chairman of the PAC. This paper covered the scope of work and guidelines for VFM audits. The VFM Audit Guidelines set out the authority and boundaries within which the Director might conduct VFM audits. The promulgation of the Guidelines set an important milestone in the development of VFM audit and public accountability in Hong Kong.

1.7 In February 1998, a paper (*"Scope of Government Audit in the Hong Kong Special Administrative Region — 'Value for Money Audits'"*) was presented to the Provisional Legislative Council by the Chairman of the PAC. This paper covered the scope of work, guidelines and procedures for VFM audits. This new set of [VFM Audit Guidelines](#) was agreed between the PAC and the Director of Audit and accepted by the Government of the HKSAR.

## Reporting to the Legislative Council

1.8 ***Requirements of the Audit Ordinance.*** Section 12 of the Audit Ordinance provides that:

- (a) the Director of Audit shall, within a period of seven months after the close of the financial year (i.e. in October), prepare and submit to the President of LegCo a report in respect of his examination and audit of the accounts of the Government;
- (b) within a period of one month after the receipt of the report and certified statements from the Director, a copy of the report and certified statements shall be laid before LegCo; and
- (c) within a period of three months after the laying of the report and certified statements from the Director, a copy of the PAC's report shall be laid before LegCo.

1.9 According to the VFM Audit Guidelines presented in February 1998 (see para. 1.7), the Director of Audit shall report his findings on VFM audits in LegCo twice each year:

- (a) the first report shall be submitted to the President of LegCo within seven months of the end of the financial year. Within one month, copies of the report shall be laid before LegCo; and
- (b) the second report shall be submitted to the President of LegCo by the 7<sup>th</sup> of April each year. By the 30<sup>th</sup> of April, copies of the report shall be laid before LegCo.

The Director's report shall be referred to the PAC for consideration when it is laid on the table of LegCo. The PAC shall follow the rules governing the procedures of LegCo in considering the Director's reports (i.e. [Rule 72 of the Rules of Procedure of LegCo](#); and [PAC's Procedure](#), as determined by the PAC in accordance with Rule 72).

### **The Government Minute**

1.10 In 1978, when the PAC was established, the Government agreed to prepare a Government Minute, after considering the comments and recommendations contained in the PAC's report, within three months of the tabling of the PAC's report.

1.11 The Government's response to the PAC's report is contained in the Government Minute, which comments as appropriate on the PAC's conclusions and recommendations, indicates what action the Government proposes to take to rectify any irregularities which have been brought to notice by the PAC or by the Director of Audit and, if necessary, explains why it does not intend to take action. It is the Government's stated intention that the Government Minute should be laid on the table of LegCo within three months of the laying of the PAC's report to which it relates.

### **Organisation of the Audit Commission**

1.12 The Audit Commission (Audit) is made up of six Divisions, namely one Regularity Audit Division, four VFM Audit Divisions, and one Corporate Services Division. The six Divisions specialise in different areas: the Regularity Audit Division in regularity audit; each VFM Audit Division in VFM audit of a set of government policy areas; and the Corporate Services Division in corporate services, including departmental administration, the Director of Audit's report production work, and other support services.

1.13 The specialisation brings a lot of benefits to the Commission's staff and management. For the staff, specialisation of work helps them better focus their efforts and develop their expertise in the respective audit areas. For the management, more specialisation and increased professionalism enable Audit to better meet the challenges ahead.

## Grade structure of the Audit Commission

1.14 As at 31 March 2008, Audit had an establishment of 184 posts. There were 60 posts (33%) in the Auditor grade, 85 posts (46%) in the Examiner grade and 39 posts (21%) in the Executive, Clerical and other supporting grades. In 2004, Audit conducted a research on grade structures of major overseas national audit offices and other professional departments in the Hong Kong civil service. As a result, it was proposed that the existing grade structure should be simplified by combining the Auditor and the Examiner grades. The benefits of the merger proposal include improving career prospect of grade members, boosting staff morale, and streamlining grade management and structure. The existing and proposed grade structures of the Audit Commission are shown below.

### Existing and proposed grade structures

Existing structure		Proposed structure	
Grade	Rank	Grade	Rank
Auditor	Senior Auditor	Auditor	Senior Auditor
Examiner	Auditor	Auditor	
	Chief Examiner		
	Senior Examiner		
	Examiner		Assistant Auditor
			Senior Assistant Auditor

1.15 The Auditor and the Examiner grade staff supported the merger proposal. The merger proposal was submitted to the Civil Service Bureau (CSB) for its consideration. The CSB informed Audit in December 2007 that our two departmental grades did not meet the selection criteria (i.e. facing serious recruitment and retention difficulties) and would not be included in the grade structure reviews for non-directorate civilian grades. However, the CSB has said that it would revisit our merger proposal in a separate context upon the completion of the grade structure reviews and the subsequent implementation of the recommendations by the Administration. The management of the Commission will keep in view further development on the merger proposal.

## Looking ahead

1.16 Over the past some one hundred and sixty years, Audit has evolved from a small colonial audit unit to a well administered and efficient audit office, providing a full range of quality audit services. We have been enhancing our services using innovative audit methodology and technology. Our professional and dedicated staff have made significant contributions in improving our services. Today, Audit functions independently and plays a vital role in the public accountability system in the HKSAR. We will continue to perform our best to realise our corporate mission of *“excellence in public sector auditing”*.

## CHAPTER 2: REGULARITY AUDIT

### Introduction

2.1 The aim of regularity audits is to provide LegCo with an overall assurance that the Government's financial and accounting transactions and those of funds of a public or quasi-public nature are proper and that they conform to generally accepted accounting standards.

2.2 Regularity audit is carried out mainly under the Audit Ordinance which, among other things, provides for the submission of annual statements by the Director of Accounting Services, the examination and audit of those statements by the Director of Audit, and the submission of his report thereon to the President of LegCo. The statements required to be rendered by the Director of Accounting Services are the Statement of Assets and Liabilities and the Statement of Receipts and Payments of:

- (a) ***General Revenue Account (GRA).*** The Government's financial activities are undertaken through a variety of accounts and funds. The GRA acts as the central funding device with resources transferred as necessary to and from a number of purpose-specific funds; and
- (b) ***Funds established under section 29 of the Public Finance Ordinance (Cap. 2).*** There are eight funds, namely Capital Investment Fund, Capital Works Reserve Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund and Lotteries Fund. Financial reporting requirements of the first seven Funds are laid down in the Audit Ordinance, while those of the Lotteries Fund in the Government Lotteries Ordinance (Cap. 334).

2.3 The Director of Audit examines and audits the financial statements of the GRA and these funds in accordance with the Audit Commission auditing standards. These auditing standards are in line with those issued by the International Organisation of Supreme Audit Institutions (INTOSAI) and the Hong Kong Institute of Certified Public Accountants (HKICPA).

2.4 Regularity audit is conducted in accordance with a programme of work (POW), which is determined annually by the Director of Audit. Audit adopts a risk-based approach to the planning and conduct of regularity audit. It emphasises on risk assessment and focuses audit tests on areas with risk of significant errors and irregularities. It is not the intention of regularity audit to disclose each and every accounting error or financial irregularity. With the considerable volume and variety of government revenue and expenditure, this examination of accounts is of necessity carried out by means of selective test checks and in-depth reviews designed to indicate possible areas of weakness. In making risk assessment and selecting transactions for detailed checks, consideration is given to the relevant systems of internal control operated by the audited departments.

2.5 Regularity audit is similar to financial audit in the private sector. Compared with private-sector auditors, we put more emphasis on the regularity and probity aspects. This is because under section 8 of the Audit Ordinance, the Director of Audit shall satisfy himself, among other things, that adequate directions have been given to ensure the due collection of moneys; all issues and payments of moneys were made in accordance with proper authority; all payments were properly chargeable and are supported by sufficient vouchers; the rules and procedures applied to the issue and payment of moneys have been duly observed; and moneys appropriated by LegCo for a specified purpose have been expended in the due application of that purpose.

2.6 To discharge the wider responsibilities of the Director of Audit under section 8 of the Audit Ordinance, we supplement our normal certification audit work with a programme of risk audit, which examines risks related to regularity, propriety and financial control. In conducting risk audit work, Audit periodically reviews the Government's activities to identify areas where there are significant risks of irregularity, impropriety or failure in financial control. The aim is to ensure that all significant risks are identified, examined and, if necessary, reported.

### **The year under review**

#### ***Accounts certified in 2007-08***

2.7 On 30 October 2007, the Director of Audit submitted the Report of the Director of Audit on the Accounts of the Government of the HKSAR for the year ended 31 March 2007 to the President of LegCo.

2.8 In 2007-08, a total of 82 accounts were audited and certified, i.e. the GRA, the eight funds mentioned in paragraph 2.2 (b), five Trading Funds, the Exchange Fund, the Hong Kong Housing Authority, and 66 other funds. Appendix A is a list of these 82 accounts. The resources deployed to regularity audits represented 29% of Audit's available resources. The amount involved constituted only a very small percentage (i.e. 0.014%) of the Government's total expenditure.

#### ***Meeting increasing workload with less resources***

2.9 In the past few years, in order to eliminate the Government's fiscal deficits, departments were required to reduce their expenditure and achieve significant savings. Audit's expenditure had been reduced from \$129.7 million in 2002-03 to \$115.0 million in 2007-08. The Commission has to try its best to work with less resources while ensuring that essential services are not affected.

2.10 However, our regularity audit workload has been increasing because:

- (a) in overseas countries, a number of high-profile corporate failures and frauds (e.g. "Enron" case in the USA) in recent years have aroused interest in how far the auditors should go in carrying out financial audits. There is increasing demand

for reducing the risk of major frauds in the use of public funds. As a result, our regularity audit work has become more demanding; and

- (b) Audit has to cope with additional and complex workload arising from the Government's adoption of accrual accounting (see paras. 2.11 and 2.12), the implementation of a new Government Financial Management Information System (GFMIS — see paras. 2.13 to 2.15) and new auditing and accounting standards (see para. 2.16).

### ***Implementation of accrual reporting in the Government***

2.11 At present, the Government publishes two separate sets of annual accounts, one under the existing cash accounting convention and another on the accrual basis. The implementation of accrual reporting is a key initiative of the Government for improving its financial accountability and transparency.

2.12 The [Government's accrual-based Consolidated Statement of Financial Position and Consolidated Statement of Financial Performance for 2006-07](#) reported a number of assets and liabilities, e.g. investments in government business enterprises (\$216 billion), fixed assets (\$278 billion), pension liabilities (\$401 billion) and provision for untaken leave (\$20 billion). In order to better reflect the Government's financial performance and position, its fixed assets have been reported in these accrual-based financial statements starting from 2004-05. The Government's adoption of accrual accounting will have wide ramifications on our regularity audit work.

### ***Implementation of the new GFMIS***

2.13 The existing GFMIS is a group of financial systems that supports various accounting and financial management processes in the Government. It is basically built around the Ledger Accounting and Financial Information System (LAFIS), which has a history dated back to 1983. In June 2003, the Treasury commenced a project to implement a new GFMIS to replace some of its existing computer systems and processes. One of the objectives of the GFMIS is to support the implementation of accrual reporting. It is a set of modern and web-based accounting and financial management software.

2.14 In December 2007, the Treasury implemented Phase 1 of the GFMIS and the system was rolled out for production use. The new system has replaced the over-20-year old LAFIS. Phase 2 of the GFMIS is scheduled to be implemented by the end of 2008.

2.15 The GFMIS involves bureaux and departments and users spread around different geographical locations in Hong Kong. The design of this complex system is based on government business processes and integration requirements. It is a large-scale system implementation taking into account a wide range of requirements and expectations of many different stakeholders. The implementation of the GFMIS has a significant impact on our regularity audit. We have taken necessary measures to deal with the impact of the implementation of Phase 1 of the GFMIS on our audit work. We will continue to keep in

view further development of this large-scale information technology (IT) project so as to properly plan our audit work.

### ***New auditing and accounting standards***

2.16 As part of the international standards convergence project, the HKICPA continues to issue new and revised accounting and auditing standards from time to time. We have to deploy substantial resources to implement the new audit requirements, and to ensure compliance with the new and revised accounting standards by the auditees in preparing their annual financial statements.

### **Looking ahead**

2.17 Audit is facing a number of major challenges in its regularity audit work, including the reduction in resources, the increasing public expectation on the role of auditors, the great changes brought about by the implementation of accrual reporting in the Government, the replacement of the existing computerised ledger accounting system by the new GFMIS, and the adoption of new auditing and accounting standards. We will allocate adequate resources to meet these challenges. To further improve the efficiency and cost-effectiveness of our audit work, we will continue to keep our audit methodology and technology under review and align them with best practices of the profession.

## CHAPTER 3: VALUE FOR MONEY AUDIT

### Introduction

3.1 VFM audits play an important role in enhancing public sector performance and accountability. In other administrations, such as the Mainland, Australia, Canada, the United Kingdom, the USA and the Macao Special Administrative Region, their audit offices attach much importance to VFM audits. VFM audits may be referred to as performance audits or operational audits by other audit offices. These audits, similar to ours, focus on three main aspects of performance which are commonly known as the “three E’s” as explained in paragraph 3.3.

3.2 The aim of VFM audits is to provide LegCo with independent information, advice and assurance about the economy, efficiency and effectiveness (the three E’s of VFM) with which any audited body (i.e. bureau/department of the Government, agency, other public body, public office or audited organisation) has discharged its functions.

3.3 The three E’s of VFM can be interpreted as follows:

- (a) ***Economy.*** It is concerned with minimising the cost of inputs used for an activity having regard to appropriate quality;
- (b) ***Efficiency.*** It is concerned with improving productivity. It is the relationship between outputs (in terms of goods, services or other results) and inputs used to produce them; and
- (c) ***Effectiveness.*** It is concerned with the extent to which objectives have been achieved. It is the relationship between objectives (or intended impacts) and outcomes (actual impacts) of an activity.

3.4 VFM audits are carried out under the VFM Audit Guidelines tabled in the Provisional Legislative Council in 1998 (see para. 1.7). The Guidelines also provide for the submission of the Director of Audit’s reports on the results of VFM audits to the President of LegCo, the tabling of these reports, the consideration of these reports by the PAC, and the tabling of the Government Minutes (see paras. 1.9 to 1.11). Like regularity audits, VFM audits are conducted in accordance with the Audit Commission auditing standards (see para. 2.3) and a POW determined annually by the Director of Audit (see para. 2.4).

3.5 VFM audits are performed using a structured approach. Basically the audit consists of three stages, i.e. the planning stage, the investigation stage and the reporting stage. At the end of the review, we produce a report to the audited body for comment. This report is subject to stringent quality checks to ensure that the report contents are accurate, complete, fair and constructive.

3.6 In conducting VFM audit under the VFM Audit Guidelines, the Director of Audit is entitled to exercise the powers given to him under the Audit Ordinance. However, he is not entitled to question the merits of the policy objectives, though he may question the economy, efficiency and effectiveness of the means used to achieve them.

### **The year under review**

3.7 In 2007-08, two Director of Audit's Reports on the results of VFM audits were submitted to the President of LegCo in April (Report No. 48) and October 2007 (Report No. 49), covering a total of 20 audit subjects. The [Director of Audit's Report No. 48](#) has eight subjects while the [Director of Audit's Report No. 49](#) has twelve subjects. The resources deployed to VFM audits represented 71% of Audit's available resources. The amount involved constituted only a very small percentage (i.e. 0.034%) of the Government's total expenditure.

3.8 The PAC continued to show great interest in the audit subjects in these two reports, and selected five subjects for public hearing.

#### **Subjects in the Director of Audit's Report Nos. 48 and 49 selected for PAC hearing**

<b>Subject</b>	<b>Report No.</b>	<b>Chapter No.</b>
Administration of Hong Kong Applied Science and Technology Research Institute Company Limited	48	2
Management of government fresh food wholesale markets	48	4
Hong Kong Tourism Board: Corporate governance and administrative issues	49	5
Hong Kong Tourism Board: Planning, execution and evaluation of marketing activities	49	6
Outsourcing of the management of public rental housing estates	49	10

The PAC examined intensively a large number of issues raised in the audit reports. In particular, the PAC held 15 public hearings totalling 46 hours on the two subjects concerning the Hong Kong Tourism Board in Report No. 49. The audit conclusions and recommendations were generally accepted by the PAC and the Administration. Like the VFM audit reports issued in past years, the media and the public showed great interest in the audit subjects. Some of the audit subjects hit the headlines of newspapers and were reported in detail. In general, the comments of the media and the public were very supportive of Audit's findings. The above audit subjects are briefly described in paragraphs 3.9 to 3.17.

**Report No. 48 Chapter 2: Administration of Hong Kong Applied Science and Technology Research Institute Company Limited**

3.9 **Background.** In his 1997 Policy Address, the Chief Executive set forth his vision of making Hong Kong an innovation centre for South China and the region. In January 2000, the Government incorporated a limited company, the Hong Kong Applied Science and Technology Research Institute Company Limited (ASTRI) to conduct research and development.

3.10 **Audit review.** The audit review focused on the following areas: corporate governance, management of conflict of interest, remuneration and recruitment, project management, project cost control, administrative issues, and cost and achievements of ASTRI. The audit recommendations were accepted by the Administration and ASTRI. Two examples of areas for improvement identified by Audit are given below:

- (a) **Remuneration and recruitment.** In 2004, ASTRI engaged a consultant to review its pay levels and to align them with market practices. The consultant found that ASTRI's pay bands for its staff at Levels One to Five were 5% to 40% above market level. The Board decided to adjust ASTRI's pay bands to the market level with effect from October 2004. However, as at November 2006, 18 staff still received a salary higher than the maximum of their respective pay bands. Audit has recommended that ASTRI should review those cases where staff are receiving salaries higher than the maximum of their respective pay bands and take action to revise their salaries where appropriate; and
- (b) **Project management.** At ASTRI, a project plan is documented in the project proposal. Audit examination of 18 project proposals revealed that (i) expected project income was estimated in only four projects; (ii) risk analysis was not conducted; and (iii) the staff cost budget was not accurately stated in three proposals. Audit has recommended that ASTRI should (i) ensure that information about the commercialisation potential of projects is provided in the project proposal; (ii) establish a risk management process as part of its project management system; and (iii) ensure that staff cost budget is accurately stated in the project proposal. Audit also noted that, up to December 2006, ASTRI had not put in place any computerised project management information system to record project information. Audit has recommended that ASTRI should consider implementing a computerised project management information system.

**Report No. 48 Chapter 4: Management of government fresh food wholesale markets**

3.11 **Background.** The Agriculture, Fisheries and Conservation Department (AFCD) is responsible for managing four government fresh food wholesale markets (wholesale markets). Three wholesale markets are directly managed by the AFCD: (a) the Cheung Sha Wan Wholesale Food Market Phase 1; (b) the Western Wholesale Food Market (Western Market); and (c) the Cheung Sha Wan Temporary Wholesale Poultry Market (CSW Poultry Market). As for the North District Temporary Wholesale Market for Agricultural Products (North District Market), the AFCD has outsourced the operation and management to a private company since December 2000. In 2006, the value of fresh food traded in the four government wholesale markets amounted to \$4,043 million.

3.12 **Audit review.** The review focused on the following areas: letting of market facilities, managing the daily operation of wholesale markets, outsourcing the operation of the North District Market, reprovisioning of outdated wholesale markets, and other areas for improvement. The audit recommendations were accepted by the Administration. Two examples of areas for improvement identified by Audit are given below:

- (a) **Letting of market facilities.** As at 30 September 2006, the three wholesale markets directly managed by the AFCD had an overall vacancy rate of 11%. The Western Market and the CSW Poultry Market had relatively high vacancy rates of 14% and 16% respectively. Of the 115 vacant units in the three wholesale markets, 99 related to market stalls, 48 of which had been vacant for three years or more. Four piers (out of five) at the Western Market had been unused for three years or more. One pier has not been used since 1991. Audit has recommended that the Director of Agriculture, Fisheries and Conservation should make further efforts to improve the utilisation of the market facilities in different wholesale markets; and
- (b) **Reprovisioning of outdated wholesale markets.** In accordance with the Executive Council's decision of 1969, the Yau Ma Tei Fruit Market (YMT Fruit Market, which is a private market) had to be reprovisioned. As at February 2007, the YMT Fruit Market was still operating at its existing location. Audit has recommended that the Secretary for Health, Welfare and Food should, in consultation with the Secretary for Housing, Planning and Lands, plan for the early reprovisioning of the YMT Fruit Market.

**Report No. 49 Chapters 5 and 6:**

***Hong Kong Tourism Board: Corporate governance and administrative issues***

***Hong Kong Tourism Board: Planning, execution and evaluation of marketing activities***

3.13 **Background.** To promote inbound tourism, the Hong Kong Tourism Board (HKTb), a government-subsidised body, was founded on 1 April 2001 under the HKTb Ordinance (Cap. 302). It was reconstituted from and replaced the Hong Kong Tourist Association. According to the audited accounts of the HKTb for 2005-06, its income (comprising government subvention of \$683 million and other revenue of \$42 million) was \$725 million and its expenditure was \$724 million.

3.14 **Audit review.** The results of the VFM audit of the HKTb are reported in two separate chapters: HKTb: Corporate governance and administrative issues (Chapter 5 of Report No. 49) and HKTb: Planning, execution and evaluation of marketing activities (Chapter 6 of Report No. 49).

3.15 Chapter 5 focused on the following areas: corporate governance, performance measurement and reporting, remuneration and recruitment, procurement matters, and other administrative issues. Chapter 6 focused on the following areas: planning of marketing activities, Worldwide Offices and Representative Offices, execution and evaluation of mega events, execution and evaluation of other marketing activities, and Quality Tourism Services Scheme. The audit recommendations in these two chapters were generally accepted by the

Administration and the HKTB. Three examples of areas for improvement identified by Audit are given below:

- (a) **Corporate governance.** According to the HKTB Ordinance, the HKTB is required to forward, before a date appointed by the Government, the draft Business Plan and Budget to the Government for approval. Audit noted that the Government had not appointed the submission dates of the Business Plans and Budgets for the years from 2002-03 to 2007-08. Except for the 2003-04 Business Plan and Budget, the other five business plans and budgets were approved by the Government after the commencement of the relevant financial years. Audit has recommended that the Secretary for Commerce and Economic Development should appoint a date for the HKTB to forward the Business Plan and Budget to the Secretary for approval and lay down arrangements for the approval of the HKTB's Business Plan and Budget before the commencement date of the relevant financial year;
- (b) **Remuneration and recruitment.** The employment contracts of HKTB senior staff specified that the award of performance-based variable payments to them was based on the achievement of targets and defined objectives as agreed with the relevant authority. However, there was no documentary evidence to show that the targets and defined objectives had been agreed with the senior staff concerned. Audit has recommended that the performance-based variable payments of the HKTB's senior executives should be awarded based on verifiable performance assessments using agreed objective criteria; and
- (c) **Execution and evaluation of mega events.** In 2006-07, the HKTB staged six mega events and the total expenditure amounted to about \$76 million. Audit examined the execution and evaluation of three mega events in 2006-07, namely the Hong Kong Shopping Festival (HKSF), the Hong Kong WinterFest (WinterFest) and the International Chinese New Year Night Parade (Parade). The total expenditure amounted to \$57.7 million. Audit noted that the HKTB: (i) had set four performance targets for the 2006 HKSF and did not meet one of the four targets; (ii) had set five performance targets for the 2006 WinterFest and did not meet four of the five targets; and (iii) had set five performance targets for the 2007 Parade and did not meet two of the five targets. Audit has recommended that the HKTB should ascertain the reasons for not meeting the targets and take measures to improve similar mega events in future.

**Report No. 49 Chapter 10: Outsourcing of the management of public rental housing estates**

3.16 **Background.** The Housing Department (HD) is responsible for the management of public rental housing estates. As at 30 April 2007, the HD outsourced the management of 115 (61%) estates to property services agents (PSAs), who provided a full range of estate management services. The HD managed the remaining 72 (39%) estates using its own staff, with cleansing and security services outsourced to contractors. The HD awarded 188 outsourcing contracts to PSAs/contractors with a total value of \$3,201 million, 83% of which was in respect of PSA contracts.

3.17 **Audit review.** The audit review focused on the following areas: protection of non-skilled workers engaged in outsourcing contracts, procurement of services and contract administration, monitoring the performance of PSAs, and contingency planning. The audit recommendations were accepted by the Administration. Two examples of areas of improvement identified by Audit are given below:

- (a) ***Protection of non-skilled workers engaged in outsourcing contracts.*** During the period from February 2004 to June 2007, the HD recorded 325 cases with suspected employment-related irregularities. As at 8 August 2007, 117 of these 325 cases were found with irregularities established (irregular cases). Based on case studies, Audit found that the suspected cases had not always been adequately followed up. Apart from two cases in which default notices (DNs) were issued under the Government's service-wide Demerit Point System (DPS) but were withdrawn after review, the HD had not issued any DN. Audit analysis of the irregular cases also shows that some PSAs/contractors have a relatively high incidence of committing employment-related defaults. Audit has recommended that the Director of Housing should issue clearer guidelines to HD staff on the circumstances for the issue of DNs under the DPS and critically review the adequacy of the HD's regulatory actions; and
- (b) ***Monitoring the performance of PSAs.*** Under the outsourcing contracts, PSAs are required to take effective actions to maintain an estate free from hawkers. Audit found that some PSAs had not reported to the HD the hawking activities in their estates, although they are required to do so. Since PSA staff do not have the legal powers to take enforcement actions against illegal hawking activities, they are not always effective in tackling the problem. Audit has recommended that the Director of Housing should: (i) ensure that PSAs report promptly to the HD accurate information on hawking activities in their estates; and (ii) review how the hawker control problem can be more effectively addressed after the outsourcing of estate management services.

## Looking ahead

3.18 It is the legitimate expectation of the public on the Government and public organisations to be accountable for their performance and use public moneys prudently and wisely. With our mission of enhancing public sector performance and accountability, we certainly have a role to play in addressing public expectation. To meet such high and growing expectation, it becomes increasingly important for us to conduct VFM audits that would help bring about public sector economy, efficiency and effectiveness. Despite the limited resources available for VFM audits, there has been growing public expectation for Audit to conduct more complex and high-impact VFM audits. We will continue to make the best deployment of our existing resources to provide independent, professional and quality audit services to the Government and public organisations to help enhance public sector performance and accountability in Hong Kong.

## **CHAPTER 4: CORPORATE SERVICES**

### **Introduction**

4.1 The Corporate Services Division of the Commission is responsible for the provision of corporate services, which include departmental administration, the Director of Audit's Report production work, translation services, technical audit, quality assurance, external and press relations, executive support, training, grade and personnel management, local area network administration, IT support, and other support services.

4.2 These corporate and support services are provided, among other things, to facilitate smooth operation of the Commission, as well as to maintain harmonious and effective relationships with its stakeholders.

### **The year under review**

4.3 For 2007-08, it was a busy but fruitful year for everybody involved in the delivery of corporate services. We stepped up efforts to enhance our relationship with our stakeholders through participation in international seminars and duty visits. More training opportunities were provided to our staff to increase their capability. Our corporate services work included:

- (a) the Director of Audit's Report production work — Reports No. 48 and 49, and Report on the Accounts of the Government of the HKSAR for the year ended 31 March 2007;
- (b) support services:
  - (i) Corporate Plan;
  - (ii) Environmental Report;
  - (iii) media research; and
  - (iv) IT support;
- (c) quality assurance work;
- (d) external and press relations:
  - (i) public relations work;
  - (ii) speeches and presentations by the Director of Audit;
  - (iii) visit to the United States Government Accountability Office (GAO);
  - (iv) participation in the 19th Congress of INTOSAI;

- (v) visit to the Audit Office of Guangdong Province; and
- (vi) receiving visitors from the Mainland and overseas; and
- (e) training and development programmes.

***The Director of Audit's Report production work***

***— Reports No. 48 and 49, and Report on the Accounts of the Government***

4.4 The Director of Audit's Reports No. 48 and 49 were issued in March and October 2007. They include the results of VFM audits completed during the period October 2006 to February 2007 and the period March to September 2007 respectively. Together with Report No. 49, the Report of the Director of Audit on the Accounts of the Government of the HKSAR for the year ended 31 March 2007 was also issued in October 2007.

4.5 Report No. 48 was tabled in LegCo on 18 April 2007. It contains eight chapters, two of which were considered by the PAC during their public hearings held in April and May 2007. The Report on the Accounts of the Government of the HKSAR for the year ended 31 March 2007 and Report No. 49 were tabled in LegCo on 28 November 2007. Report No. 49 contains 12 chapters, three of which were considered by the PAC during their public hearings held in December 2007 to February 2008. The audit recommendations were generally accepted by the Administration and the audited bodies. The Director of Audit's Reports are available on our website at [http://www.aud.gov.hk/eng/pubpr\\_arpt/rpt.htm](http://www.aud.gov.hk/eng/pubpr_arpt/rpt.htm).

***Corporate plan***

4.6 The Corporate Plan for the three-year period 2007-08 to 2009-10 was issued in June 2007. It is the key document to communicate the Commission's long-term objectives and strategies to its stakeholders. It outlines our Vision, Mission and Values (see Appendix B), as well as the key result areas on which we focus our efforts in the delivery of audit services.

4.7 The Corporate Plan is supported by the annual Business Plan and other work plans, including the Five-year VFM Audit Strategic Plan and the annual POW. The Business Plan 2007-08, which was issued in June 2007, set out the broad directions for conducting our core businesses and the key initiatives planned for the audit year September 2007 to August 2008. The Five-year VFM Audit Strategic Plan and the annual POW were then prepared to translate the initiatives set out in the Business Plan into detailed work programmes, the completion of which would contribute to the achievement of the key results which we aimed to achieve. Appendix C shows the key targets and indicators of the Commission.

4.8 The Corporate Plan is available on our website at [http://www.aud.gov.hk/eng/aboutus/about\\_corp.htm](http://www.aud.gov.hk/eng/aboutus/about_corp.htm).

### ***Environmental Report***

4.9 Starting from 2001, an annual Environmental Report has been issued to help promote environmental protection. The Environmental Report 2007 was the 7<sup>th</sup> report we issued. The Commission is committed to ensuring that its operations conform to environmental protection principles and promote environmental protection practices. To help promote environmental protection, the Commission:

- (a) adopts green housekeeping practices; and
- (b) carries out VFM audits on selected government activities which have a significant environmental impact and on related environmental issues, with a view to highlighting areas for improvement in the implementation of the Government's environmental improvement policies.

4.10 The Environmental Report 2007 is available on our website at [http://www.aud.gov.hk/eng/otherinfo/info\\_envrpt.htm](http://www.aud.gov.hk/eng/otherinfo/info_envrpt.htm).

### ***Media research***

4.11 We conducted media research on a daily basis (e.g. newspaper clippings) to keep in view possible audit issues reported in the media. We also collected useful feedback (e.g. media comments and views from the public) on our published VFM audit reports.

### ***IT support***

4.12 Our Departmental IT Plan for the two-year period 2007-08 to 2008-09 was issued in July 2007. The IT Plan:

- (a) takes stock of our IT facilities and of our progress in implementing IT tasks identified;
- (b) identifies areas where IT potential can be further exploited to enhance efficiency; and
- (c) sets out the IT tasks to be implemented in the period covered by the Plan.

4.13 In May 2007, the Commission completed an IT Security Risk Assessment and Audit with the aim of strengthening the security level of our IT systems. To bring the attention of our staff to the increasing IT security threats, in June 2007, we invited an external consultant to give us three seminars on IT security. The response of our colleagues on the seminars was positive. In 2007-08, the upgrading of both our Lotus Notes and anti-virus software was substantially completed.

### *Quality assurance work*

4.14 The Technical Administration Branch carried out technical audit of all the chapters included in Report Nos. 48 and 49 of the Director of Audit to ensure their accuracy and quality. The Branch also carried out a quality assurance review of Chapter 3 of Report No. 49 of the Director of Audit “Allocation and management of disciplined services quarters”. Useful suggestions for improvement were given to the audit team.

### *Public relations work*

4.15 A key focus in the past year was the stepping up of efforts on our public relations work covering different stakeholder groups. The following are some of the key events:

- (a) on 9 August 2007, the Director of Audit attended a presentation by Mr Al Gore, the former Vice President of the USA, concerning climate change, ethics and sustainability organised by the Association of Chartered Certified Accountants (ACCA). In the function, the Director exchanged views with Mr Al Gore and other professional accountants on matters of mutual interest;



**From left to right: Mr Al Gore (former Vice President of the USA), Director of Audit and Mr Allen Blewitt (Chief Executive of ACCA)**

- (b) the CPA Australia held its luncheon and Corporate Governance Forum – “Creating the Biggest Capital Market for IPOs in the World” on 4 October 2007. The Director attended the function and shared ideas and knowledge with professional accountants;



**The CPA Australia luncheon on 4 October 2007**

- (c) the Director was conferred honorary membership by the Canadian Certified General Accountants Association of Hong Kong (CGA Hong Kong) on 6 September 2007 in recognition of his conspicuous service and for his material contribution to the growth and stature of the Association in the profession and the community. The Director was presented with the membership certificate at the Association's annual dinner on 8 October 2007;



**The CGA Hong Kong Annual Dinner on 8 October 2007**

- (d) the HKICPA held its Annual Dinner on 6 December 2007. The Director attended the dinner and exchanged views with professional accountants on matters of mutual interest;



**The HKICPA Annual Dinner on 6 December 2007**

- (e) the Director attended the Spring Cocktail Reception of the HKICPA on 26 February 2008 and exchanged views with the participants;
- (f) the Director attended the cocktail function of the Spring Dinner of the ACCA Hong Kong on 3 March 2008 and exchanged views with professional accountants; and
- (g) the Director took part in a number of media interviews:
- (i) Ta Kung Pao on 12 June 2007;
  - (ii) Ming Pao in September 2007; and
  - (iii) "A Plus", the official magazine of the HKICPA, on 16 January 2008.

*Speeches and presentations by the Director of Audit*

4.16 In 2007-08, the Director of Audit delivered a number of speeches and presentations on subjects related to our work to various organisations. The following are the key events:

- (a) speech by the Director on “Public Sector Governance: The Role of the Director of Audit” on 12 June 2007 to the Hong Kong Branch, Certified Management Accountants Society of British Columbia, Canada; and
- (b) speech by the Director on “Enhancing Public Sector Governance through Value for Money Audit” on 14 December 2007 to members of the ACCA Hong Kong.



**Speech to members of the ACCA  
Hong Kong on 14 December 2007**

*Visit to the United States Government Accountability Office*

4.17 On 2 November 2007, the Director of Audit visited the United States GAO and met with the Comptroller General, Mr David Walker. During the visit to the GAO, matters of mutual interest were discussed including staff training and quality assurance.



**Director of Audit and  
Mr David Walker**

*Participation in the 19<sup>th</sup> Congress of  
the International Organisation of Supreme Audit Institutions*

4.18 At the invitation of the National Audit Office of the People’s Republic of China

(CNAO), the Director of Audit and Mr Pang Kwok-sing, Senior Auditor, attended the 19<sup>th</sup> Congress of INTOSAI as members of the China delegation led by the Deputy Auditor General of the CNAO, Mr Dong Dasheng. The Head of the Commission of Audit of Macao, Ms Fatima Choi, was also a member of the Delegation. The 19<sup>th</sup> Congress of INTOSAI was held in Mexico City, the capital of Mexico, from 5 to 10 November 2007.

4.19 The key themes discussed in the Congress were (a) management, accountability and audit of public debt; and (b) performance assessment systems based on key indicators. The Audit Commission's participation in the Congress was very useful in helping us keep abreast of the developments in international public sector auditing. It also provided a good opportunity for us to exchange views and share good practices with our counterparts in the CNAO, the Commission of Audit of Macao and other overseas national audit offices.



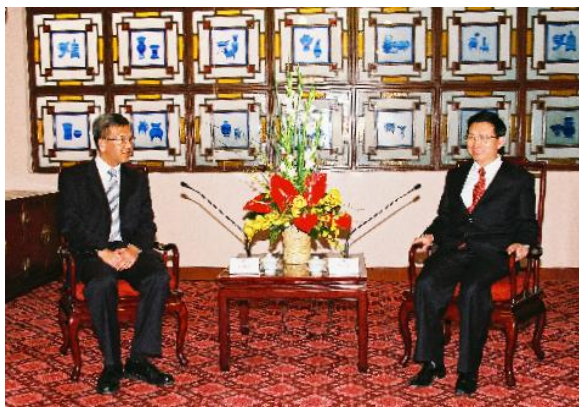
**Director of Audit and a Senior Auditor attended the 19<sup>th</sup> INTOSAI Congress**



**Members of the China Delegation**

#### *Visit to the Audit Office of Guangdong Province*

4.20 In response to the invitation of the Audit Office of Guangdong Province, the Director of Audit and three officials of the Commission visited the Audit Office from 7 to 9 January 2008. The delegation also met Mr Zhong Yangsheng, Vice Governor (Executive) of Guangdong Province and Ms Li Qihong, Mayor of Zhongshan Municipal People's Government.



**Director of Audit met  
Mr Zhong Yangsheng,  
Vice Governor (Executive)  
of Guangdong Province**



**Delegation of Audit met  
Ms Li Qihong, Mayor of  
Zhongshan Municipal  
People's Government  
(3<sup>rd</sup> from the right)**

4.21 The visit to the Audit Office of Guangdong Province facilitated the sharing of professional knowledge and experience in public sector auditing between the two offices.



**Delegation of Audit met the officials of  
the Audit Office of Guangdong Province**

### *Receiving visitors from the Mainland and overseas*

4.22 In 2007-08, the Audit Commission held a number of seminars for visitors. These visits strengthened our linkage with our Mainland and overseas counterparts. The key events are as follows:

- (a) a delegation of the Council of Federation of the Federal Assembly of the Russian Federation visited the Commission on 25 April 2007. Our staff gave the delegation a presentation on our work. The delegates showed great interest in our work;
- (b) a delegation of the Audit Office of Guangdong Province led by Mr Zeng Shouxi, Director of Audit Office of Guangdong Province, visited the Commission on 26 April 2007. We gave a presentation to the delegation on the work of the Commission;



**Director of Audit and  
Mr Zeng Shouxi, Director  
of Audit Office of  
Guangdong Province**

- (c) Ms Zhang Haikun, Deputy Director of the Beijing Municipal Audit Bureau, led a delegation to visit the Commission on 15 June 2007. We gave a presentation on the work of the Commission to the delegation;



**Director of Audit and  
Ms Zhang Haikun, Deputy  
Director of the Beijing  
Municipal Audit Bureau**

- (d) a delegation from the Suzhou Municipal Audit Office visited the Audit Commission on 20 July 2007. Audit held a seminar on the work of the Commission for the delegation;
- (e) a study tour on audit management from the Audit Bureau of Jiangsu Province visited our office on 22 August 2007. Our staff gave them a presentation on our work. They showed great interests in our VFM audit work. A very

constructive exchange of views on various aspects of public sector auditing was made between the visitors and our staff;

- (f) on 28 August 2007, we conducted a one-day training session on regularity audit and VFM audit for officials of the Audit Office of Guangdong Province, as part of its training course organised in Hong Kong. Through case studies, we shared our experience in conducting VFM audit and exchanged views on various aspects of public sector auditing with the participants; and



**One-day training session for officials of the Audit Office of Guangdong Province**

- (g) a study tour on audit management from the Audit Bureau of Jiangsu Province visited our office on 21 November 2007. Our staff gave them a presentation on our work. The visitors found the content of the presentation, in particular our work in VFM audit, interesting and useful for their future reference.



**Study tour from the Audit Bureau of Jiangsu Province**

### ***Training and development programmes***

4.23 ***National Studies Courses.*** In April 2007, Mr Edmund Chow, Auditor, attended the National Studies Course for Middle Managers at Peking University Shenzhen Graduate School. In June 2007, Ms Alice Poon, Senior Auditor, attended the National Studies

Course at Tsinghua University. The participants found the training courses very useful in enhancing their understanding of the latest socio-economic and political developments in the Mainland.

4.24 ***Leadership in Action Programme.*** In May 2007, Mr Lee Sik-yum, Senior Auditor, attended the Leadership in Action Programme organised by the Civil Service Training and Development Institute. This three-week training programme aimed to help participants broaden their strategic horizons and advance their understanding of issues and challenges facing the public sector.

4.25 ***Seminar on IT Security.*** We organised three seminars on “IT Security” in June 2007. The seminars were conducted by Mr Lau Kim-ching, an IT security expert. These seminars gave our colleagues more knowledge about the measures for enhancing IT security.



**Mr Lau Kim-ching**

4.26 ***Work of the Beijing Municipal Audit Bureau.*** A presentation on work of the Beijing Municipal Audit Bureau was given to our staff on 18 June 2007. Ms Zhang Haikun, Deputy Director of the Beijing Municipal Audit Bureau, and her colleagues made the presentation. It gave us an understanding of the Bureau’s audit methodology. Our staff found the presentation very useful and interesting.



**Delegation from the Beijing  
Municipal Audit Bureau**

4.27 ***UK National Audit Office International Training Course 2007.*** In September 2007, Mr Andy Chiu, Auditor, attended the International Training Course 2007 organised by UK National Audit Office (NAO). The aim of the training course was to provide an insight

into the UKNAO's approach for both financial and VFM audits. Through the training, Mr Chiu shared his experience with other participants and learned by networking with colleagues from around the world.

4.28 *The 5<sup>th</sup> International Audit Training Seminar.* In October 2007, Mr Francis Po, Auditor, and Mr Edmond Chan, Auditor, attended the 5<sup>th</sup> International Audit Training Seminar organised by the CNAO. The objective of the seminar was to introduce to the participants the audit rules and regulations, audit standard, audit quality control system and training system of the CNAO.

### **Looking ahead**

4.29 In 2007-08, we made great efforts to step up our public relations work, improve our organisation's IT security, and enhance staff training. In the year ahead, we will continue with these efforts so as to help achieve the mission of the Commission.

**The 82 accounts certified in 2007-08**

**Accounts of the Government**

- (1) General Revenue Account
- (2) Capital Investment Fund
- (3) Capital Works Reserve Fund
- (4) Civil Service Pension Reserve Fund
- (5) Disaster Relief Fund
- (6) Innovation and Technology Fund
- (7) Land Fund
- (8) Loan Fund
- (9) Lotteries Fund

**Trading Funds**

- (10) Companies Registry Trading Fund
- (11) Electrical and Mechanical Services Trading Fund
- (12) Land Registry Trading Fund
- (13) Office of the Telecommunications Authority Trading Fund
- (14) Post Office Trading Fund

**Other Funds**

- (15) AIDS Trust Fund
- (16) Bankruptcy Estates Account
- (17) Brewin Trust Fund

- (18) Chinese Temples Fund
- (19) Companies Liquidation Account
- (20) Correctional Services Children's Education Trust
- (21) Correctional Services Department Welfare Fund
- (22) Customs and Excise Service Children's Education Trust Fund
- (23) Customs and Excise Service Welfare Fund
- (24) Director of Social Welfare Incorporated Accounts
- (25) District Court Suitors' Funds
- (26) Donations for assistance to tsunami victim families
- (27) Early Retirement Ex-gratia Payment Fund for Aided Primary School Teachers
- (28) Early Retirement Ex-gratia Payment Fund for Aided Secondary School Teachers
- (29) Education Development Fund
- (30) Education Scholarships Fund
- (31) Emergency Relief Fund
- (32) Environment and Conservation Fund
- (33) Exchange Fund
- (34) Financial Reporting Council
- (35) Fire Services Department Welfare Fund
- (36) Fisheries Development Loan Fund
- (37) General Chinese Charities Fund
- (38) Government Flying Service Welfare Fund
- (39) Grant Schools Provident Fund

- (40) Grantham Scholarships Fund
- (41) High Court Suitors' Funds
- (42) Hong Kong Housing Authority
- (43) Hong Kong Rotary Club Students' Loan Fund
- (44) Immigration Service Welfare Fund
- (45) Independent Commission Against Corruption Welfare Fund
- (46) J. E. Joseph Trust Fund
- (47) Kadoorie Agricultural Aid Loan Fund
- (48) Labour Tribunal Suitors' Funds
- (49) Language Fund
- (50) Legal Aid Services Council
- (51) Li Po Chun Charitable Trust Fund
- (52) Loans to Poultry Traders under Loan Fund
- (53) Loans to Poultry Wholesalers and Retailers affected by Avian Flu under Loan Fund
- (54) MacLehose Fund
- (55) Master in Lunacy Account
- (56) Minor Employment Claims Adjudication Board Suitors' Funds
- (57) Official Administrator's Account
- (58) Official Receiver in Bankruptcy Account
- (59) Official Receiver in Voluntary Arrangement Account
- (60) Official Solicitor's Accounts
- (61) Pneumoconiosis Ex Gratia Fund

- (62) Police Children's Education Trust
- (63) Police Education and Welfare Trust
- (64) Police Welfare Fund
- (65) Prisoners' Education Trust Fund
- (66) Prisoners' Welfare Fund
- (67) Quality Education Fund
- (68) Queen Elizabeth Foundation for the Mentally Handicapped
- (69) Samaritan Fund
- (70) Secretary for Home Affairs Incorporated Accounts
- (71) Sing Tao Foundation Students' Loan Fund
- (72) Sir David Trench Fund for Recreation
- (73) Sir Edward Youde Memorial Fund
- (74) Sir Robert Black Trust Fund
- (75) Small Claims Tribunal Suitors' Funds
- (76) Social Work Training Fund
- (77) Statement of Deposits required pursuant to sections 35 and 35A of the Insurance Companies Ordinance
- (78) Subsidized Schools Provident Fund
- (79) Supplementary Legal Aid Fund
- (80) The Legislative Council Commission
- (81) Traffic Accident Victims Assistance Fund
- (82) World Refugee Year Loan Fund

## **Vision, Mission and Values**

### **Vision**

#### ***Excellence in public sector auditing***

We strive for excellence in the provision of independent public sector audit services through commitment to professionalism and innovation.

### **Mission**

***To provide independent, professional and quality audit services to the Legislative Council and public sector organisations in order to help the Government enhance public sector performance and accountability in Hong Kong.***

The primary objective of our audit services is to contribute to enhancing the performance and accountability of the Government and other public sector organisations in Hong Kong. We achieve our mission by:

- (a) conducting regularity audits which provide the Legislative Council with an overall assurance that the Government's financial and accounting transactions and those of funds of a public or quasi-public nature are proper and that they conform to accepted accounting standards; and
- (b) conducting value for money audits which provide the Legislative Council with independent information, advice and assurance about the economy, efficiency and effectiveness with which any bureau/department of the Government, agency, other public body, public office, or audited organisation has discharged its functions.

## **Values**

We are committed to upholding a high standard of integrity and conduct in discharging our audit responsibilities. The following are the core values which all our staff members are expected to adhere to:

### ***Independence***

We strive to be, and be seen to be, objective, unbiased and free from undue influences in the provision of audit services.

### ***Professionalism***

We seek to achieve excellence by conducting our work with professional competence and expertise, in accord with the highest standards of ethics and proficiency in our professions.

### ***Commitment***

We are committed to adding value to public sector management by delivering quality audit services which serve the best interests of Hong Kong.

### ***Innovation***

We strive for continuous improvements by accepting, promoting and sharing creative and innovative ideas.

### ***Objectivity***

We are always fair, just and impartial in the conduct of our work.

### ***Ethics and Integrity***

We always act in an open, honest, ethical and professional manner.

### ***Responsiveness***

We always understand, acknowledge, and try our best to meet the needs and expectations of our stakeholders.

**Key Targets and Indicators**

	Unit	Target	2006-07 (Actual)	2007-08 (Revised Estimate)	2008-09 (Plan)
<b>Regularity Audit</b>					
<b>Targets</b>					
Number of Director of Audit's Reports submitted to the Legislative Council	Report	1	1	1	1
Time required to certify the statements of accounts of the Government after the end of each financial year	Month	7	7	7	7
<b>Indicators</b>					
Number of accounts certified	Account		79	82	82
Number of man-hours spent	Man-hour		82 821	84 563	89 339
Provision for regularity audit as % of total government spending	%		0.014	0.014	0.011
<b>Value for Money Audit</b>					
<b>Targets</b>					
Number of Director of Audit's Reports submitted to the Legislative Council	Report	2	2	2	2
Number of value for money audit reports issued to audited bodies	Report	19	19	19	19
<b>Indicators</b>					
Number of man-hours spent	Man-hour		159 848	162 157	165 629
Provision for value for money audit as % of total government spending	%		0.035	0.034	0.027

## Calendar of key events

(1 April 2007 to 31 March 2008)

Date	Event
18 April 2007	The Director of Audit's Report No. 48 was tabled in LegCo.
19 April 2007	The Director of Audit attended the High Table Dinner 2007 organised by City University of Hong Kong Students' Union.
25 April 2007	Audit gave a presentation to a delegation of the Council of Federation of the Federal Assembly of the Russian Federation.
26 April 2007	Mr Zeng Shouxi, Director of Audit Office of Guangdong Province, led a delegation from the Audit Office of Guangdong Province to visit the Audit Commission. Audit gave a presentation to the delegation on the work of the Commission.
12 June 2007	The Director of Audit attended the Annual Dinner 2007 of the Hong Kong Branch, Certified Management Accountants Society of British Columbia, Canada and gave a speech on "Public Sector Governance: The Role of the Director of Audit" to the members of the Society.
12 June 2007	The Director of Audit was interviewed by Ta Kung Po.
15 June 2007	A delegation from the Beijing Municipal Audit Bureau visited the Commission.
18 June 2007	Ms Zhang Haikun, Deputy Director of the Beijing Municipal Audit Bureau, gave a presentation on work of the Bureau to the staff of the Audit Commission.
June 2007	The Corporate Plan for the three-year period 2007-08 to 2009-10 was issued.
20 July 2007	A delegation from the Suzhou Municipal Audit Office visited the Audit Commission. Audit held a seminar on the work of the Commission for the delegation.
27 July 2007	A delegation from the Nanjing Audit University visited our office and a talk was delivered to them.
9 August 2007	The Director of Audit attended a presentation by Mr Al Gore, the former Vice President of the USA, concerning climate change, ethics and sustainability organised by the ACCA.
22 August 2007	Audit gave a presentation on the work of the Commission to a delegation from the Audit Bureau of Jiangsu Province.
28 August 2007	Audit conducted a one-day training session on regularity audit and VFM audit for officials of the Audit Office of Guangdong Province.
6 September 2007	The Director of Audit was conferred honorary membership by the CGA Hong Kong.
19 September 2007	A delegation from the Nanhai District Audit Bureau of Foshan visited our office and a talk was delivered to them.
September 2007	The Director of Audit was interviewed by Ming Pao.
3 October 2007	The Director of Audit attended the Annual Dinner of the Politics and Public Administration Association of the University of Hong Kong.

**Appendix D**  
(Cont'd)

4 October 2007	The Director of Audit attended the CPA Australia's luncheon and Corporate Governance Forum – "Creating the Biggest Capital Market for IPOs in the World".
13 October 2007	The Director of Audit gave a speech on "How to Ensure Value for Money in Public Expenditure" at a seminar organised by the City University of Hong Kong.
2 November 2007	The Director of Audit visited the United States GAO and met its Comptroller General, Mr David Walker.
5 to 10 November 2007	The Director of Audit and a Senior Auditor attended the 19th Congress of INTOSAI held in Mexico City.
15 November 2007	A delegation from the Sichuan Aerospace Research Institute visited our office and a talk on the work of Audit was delivered to them.
21 November 2007	Audit gave a presentation on the work of the Commission to a delegation from the Audit Bureau of Jiangsu Province.
28 November 2007	The Director of Audit's Report No. 49 and the Report on the Accounts of the Government of the HKSAR for the year ended 31 March 2007 were tabled in LegCo.
6 December 2007	The Director of Audit attended the Annual Dinner of the HKICPA.
14 December 2007	The Director of Audit gave a speech on "Enhancing Public Sector Governance through Value for Money Audit" to the members of the ACCA Hong Kong.
7 to 9 January 2008	A delegation of the Audit Commission led by the Director of Audit visited the Audit Office of the Guangdong Province. The delegation also met Mr Zhong Yangsheng, Vice Governor (Executive) of Guangdong Province and Ms Li Qihong, Mayor of Zhongshan Municipal People's Government.
16 January 2008	The Director of Audit was interviewed by "A Plus", the official magazine of the HKICPA.
15 February 2008	A Principal Auditor represented the Commission to attend the Spring Cocktail of the Society of Chinese Accountants and Auditors.
26 February 2008	The Director of Audit attended the Spring Cocktail Reception of the HKICPA.
3 March 2008	The Director of Audit attended the cocktail function of the Spring Dinner of the ACCA Hong Kong.

### Acronyms and abbreviations

ACCA	Association of Chartered Certified Accountants
AFCD	Agriculture, Fisheries and Conservation Department
ASTRI	Hong Kong Applied Science and Technology Research Institute Company Limited
Audit	Audit Commission
CGA Hong Kong	Canadian Certified General Accountants Association of Hong Kong
CNAO	National Audit Office of the People's Republic of China
CSB	Civil Service Bureau
CSW Poultry Market	Cheung Sha Wan Temporary Wholesale Poultry Market
DNs	Default notices
DPS	Demerit Point System
GAO	Government Accountability Office
GFMIS	Government Financial Management Information System
GRA	General Revenue Account
HD	Housing Department
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSF	Hong Kong Shopping Festival
HKSAR	Hong Kong Special Administrative Region
HKTb	Hong Kong Tourism Board
INTOSAI	International Organisation of Supreme Audit Institutions
IT	Information technology
LAFIS	Ledger Accounting and Financial Information System
NAO	National Audit Office

North District Market	North District Temporary Wholesale Market for Agricultural Products
PAC	Public Accounts Committee
POW	Programme of work
PSA	Property services agents
VFM	Value for money
Western Market	Western Wholesale Food Market
WinterFest	Hong Kong WinterFest
YMT Fruit Market	Yau Ma Tei Fruit Market