

HONG KONG SPECIAL ADMINISTRATIVE REGION

Audit Commission

Annual Report 2008-09

**Audit Commission
Hong Kong
June 2009**

AUDIT COMMISSION
ANNUAL REPORT 2008-09

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DIRECTOR'S MESSAGE

I am pleased to present the Annual Report of the Audit Commission for the financial year 2008-09. This was a challenging year not only for the Commission, but also for the whole world during the global financial crisis. Nonetheless, we have continued to uphold a high standard of professionalism in our audit work and deliver independent and quality public sector audit services.

The year under review

2. We aim at helping the Government enhance public sector performance and accountability. We achieve this aim through conducting value for money (VFM) audit and regularity audit.

3. In our VFM audit, we aim at making value-added recommendations to help the auditees achieve better VFM by improving governance, and enhancing accountability and cost-effectiveness. With our professionalism and dedication, we demonstrate to the auditees that we aim at helping them improve and learn lessons, and not just for the sake of raising criticisms. Our audit reports are subject to stringent quality checks before publication to ensure that their contents are accurate, complete, fair and constructive. In 2008-09, we issued a number of VFM audit reports which attracted a great deal of public interest, notably the reviews of the Society for the Aid and Rehabilitation of Drug Abusers, administration of the DesignSmart Initiative, emergency ambulance service, and management of public markets. In all these reviews, we attempted to help the auditees identify lessons learnt and achieve better VFM. Our recommendations were accepted by the auditees. Details about these reviews are covered in Chapter 3.

4. Regularity audit, similar to financial audit in the private sector, examines the financial propriety of the accounts of the Government. Through regularity audit, the Commission helps the Government enhance governance, accountability and transparency. Apart from providing an overall assurance on the propriety of Government accounts, we aim at making recommendations on areas with potential significant risks to regularity, propriety and controls. In 2008-09, 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, with a view to assessing its impact on our regularity audit work. Phase 1 of the new Government Financial Management Information System was implemented in December 2007. Phase 2 of the System comprises four streams and the first stream was implemented in March 2009. We will continue to keep in view further development of the System and prepare ourselves for this change. Chapter 2 gives more details about our regularity audit work.

5. The Commission is one of the oldest government departments in Hong Kong, dating back to 1844 when the first Director of Audit (then known as the Auditor General) was appointed. Over the years, we have made enormous stride in building up our reputation and earning respect from stakeholders. The media and general public are very supportive of our work which is something we cherish. To keep abreast of new developments and best practices of the accounting and auditing professions, we have continued to share experience with professional bodies in these fields. For instance, I met with the Auditor-Generals of overseas audit offices and participated in various functions of professional bodies to exchange experience and knowledge about public sector auditing. In October 2008, our staff attended the Asian Organisation of Supreme Audit Institutions Environmental Audit Seminar in Hangzhou. Apart from receiving visitors from the Mainland and overseas, our staff also visited the Mainland to conduct VFM audit training courses for our Mainland counterparts. Details are set out in Chapter 4.

The way ahead

6. We shall continue to improve the organisation and capability of the Commission. We successfully reorganised the structure of the Commission in September 2005. In 2009-10, we will conduct a post-implementation review of this reorganisation. The proposed merger of the Auditor and Examiner grades is also kept under review. The skills and expertise of our staff are vital to the success of the Commission. We are committed to helping our staff meet their full potential by enriching their skills and expertise.

7. The growth of e-business in the Government poses a challenge to the Commission. There is a need for us to ensure that e-transactions are properly authorised and e-records are complete, accurate and valid. We will continue to review our audit methodology and resource planning to meet this challenge. Our recent audits have revealed various problems with the governance of publicly-funded non-governmental organisations. The corporate governance of these non-governmental organisations will continue to be an important area of concern in our future VFM audits.

8. We have maintained good working relationship with the Public Accounts Committee of the Legislative Council. I am grateful for their and the public's support to our work over the past year. I would also like to acknowledge with gratitude the full cooperation and assistance rendered by the auditees. Finally, I would like to extend my thanks to all my staff for their efforts, dedication and professionalism. Their commitment to excellence enables the Commission to deliver quality audit services and earn respect from the public.

9. We will continue to provide high quality public sector audit services in the coming year.

Benjamin Tang
Director of Audit
June 2009



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 7th of April each year. By the 30th 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 2009, Audit had an establishment of 185 posts. There were 61 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 Audit will step into its 165th anniversary in the year 2009. Over the past years, it has evolved from a small colonial audit unit to a well administered and efficient audit office, providing a full range of quality audit services. Our staff are pleased and honoured to have joined this Commission with such a long and respectable tradition of professionalism and commitment. Their dedication and determination to strive to perform their best have contributed to the standing of the Commission. We will continue to enhance our audit methodology and technology to provide quality audit services. To realise our corporate mission of “*excellence in public sector auditing*”, we will also continue to upkeep our independent role and do our best to enhance public sector performance and accountability.

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 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 are laid down in the Government Lotteries Ordinance (Cap. 334).

2.3 The Director of Audit examines and audits the financial statements of the GRA and the eight funds mentioned in paragraph 2.2(b) 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 2008-09

2.7 On 29 October 2008, 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 2008 to the President of LegCo.

2.8 In 2008-09, 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 32% of Audit's available resources. The amount involved constituted only a very small percentage (i.e. 0.012%) of the Government's total expenditure.

Increasing workload

2.9 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. 2.10 and 2.11), the implementation of a new Government Financial Management Information System

(GFMIS — see paras. 2.12 to 2.14) and new accounting and auditing standards (see para. 2.15).

Implementation of accrual reporting in the Government

2.10 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.

2.11 The [Government's accrual-based Consolidated Statement of Financial Position and Consolidated Statement of Financial Performance for 2007-08](#) reported a number of assets and liabilities, e.g. investments in government business enterprises (\$239 billion), fixed assets (\$281 billion), pension liabilities (\$428 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

2.12 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, 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.

2.13 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 Ledger Accounting and Financial Information System. Phase 2 of the GFMIS comprises four streams. The first stream was implemented in March 2009. The other three streams are expected to be rolled out during 2009-10.

2.14 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 and the first stream of Phase 2 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 accounting and auditing standards

2.15 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

2.16 Audit is facing a number of major challenges in its regularity audit work, including the expectation of an expanding role for public auditors, the changes brought about by the implementation of Government accrual accounts reporting, the growing use of e-business (e.g. replacement of the existing computerised ledger accounting system by the new GFMIS), and the adoption of new auditing and accounting standards. To meet these challenges, we will continue to keep our audit methodology and technology under review and align them with best professional practices.

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 and reviews 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 2008-09, two Director of Audit's Reports on the results of VFM audits were submitted to the President of LegCo in April (Report No. 50) and October 2008 (Report No. 51), covering a total of 19 audit subjects. The [Director of Audit's Report No. 50](#) has seven subjects while the [Director of Audit's Report No. 51](#) has twelve subjects. The resources deployed to VFM audits represented 68% of Audit's available resources. The amount involved constituted only a very small percentage (i.e. 0.026%) of the Government's total expenditure.

3.8 The PAC continued to express keen interest in the audit subjects in these two reports, and selected six subjects for public hearing.

Subjects in the Director of Audit's Report Nos. 50 and 51 selected for PAC hearing

Subject	Report No.	Chapter No.
Commercialisation and utilisation of government properties	50	2
The Society for the Aid and Rehabilitation of Drug Abusers	50	5
Administration of the DesignSmart Initiative	51	2
Emergency ambulance service	51	4
Management of public markets	51	6
Reduction and recovery of municipal solid waste	51	11

The PAC examined at length a number of issues raised in the audit reports. For example, regarding the chapter on "Administration of the DesignSmart Initiative", the PAC was particularly concerned about the corporate governance and administration of the Hong Kong Design Centre (HKDC). The PAC regretted that the HKDC was yet another government-funded organisation found to have problems and inadequacies in corporate governance that had become the subject of a report by the Director of Audit and had required examination by the PAC in recent years. The audit conclusions and recommendations of the audit reports were accepted by the PAC, the Administration, and the audited non-governmental organisations. Like the VFM audit reports issued in past years, some audit subjects in these two reports hit the headlines of newspapers and were widely reported. In general, the comments from the media and the public were supportive of Audit's findings. The above audit subjects are briefly described in paragraphs 3.9 to 3.20.

Report No. 50 Chapter 2: Commercialisation and utilisation of government properties

3.9 **Background.** The Government Property Agency (GPA) was established in April 1990 to administer and manage efficiently and cost-effectively all government-owned and leased properties. According to the Accommodation Regulations, the GPA's objectives in respect of the utilisation and commercialisation of government properties are: (a) to ensure that all government accommodation is fully utilised with maximum efficiency and value for money; and (b) to introduce appropriate commercial activities in suitable government accommodation so as to maximise the return to the Government for its capital investment.

3.10 **Audit review.** The audit review focused on the following areas: commercialisation of government properties, management and reporting of identified commercialisation opportunities, and utilisation of vacant and surplus government properties. The audit recommendations were generally accepted by the Administration. Two examples of areas for improvement identified by Audit are given below:

- (a) **Commercialisation of government properties.** In 1990, when the GPA first let out the ground floor shops in the Trade and Industry Department (TID) Tower, the monthly rents compared favourably with the corresponding Rating and Valuation Department rental valuations of ground floor shops at nearby developments. Audit analysis of the changes in commercial value of the shops in the TID Tower over the 18-year period from 1990 to 2007 revealed that, on the whole, the annual rental income had increased by 38%. However, for seven shops, the monthly rents per square metre in 2007 were substantially lower than those in 1990. It seems unreasonable that the rents of the seven shops in 2007 are lower than those in 1990. As the TID Tower is located in a prime commercial location, Audit considers that there is a need to enhance the commercial value of the shops on the ground floor so as to maximise the return on the Government's investment. Audit has recommended that the Government Property Administrator should take measures (e.g. holding marketing promotion activities and improving the shopping environment) to enhance the commercial value of the shops on the ground floor of the TID Tower; and
- (b) **Management and reporting of identified commercialisation opportunities.** Audit found that there was an undue delay in the processing of an identified commercialisation opportunity by the GPA. Audit noted that the GPA had not followed up the commercialisation opportunity at the Mong Kok Stadium for an unduly long period of three years. In Audit's view, the financial benefits of the proposed tender for the commercialisation opportunity have been adversely affected and there are revenue implications to the Government. Audit has recommended that the Government Property Administrator should process all identified commercialisation opportunities promptly in order to protect government revenue.

Report No. 50 Chapter 5: The Society for the Aid and Rehabilitation of Drug Abusers

3.11 **Background.** The Society for the Aid and Rehabilitation of Drug Abusers (SARDA) is a non-profit-making non-governmental organisation that provides free residential treatment and rehabilitation services to drug abusers who seek treatment on a

voluntary basis. It is governed by its Executive Committee (EC), and is mainly funded by recurrent subvention from the Department of Health (DH). In 2006-07, its recurrent expenditure was \$75 million.

3.12 **Audit review.** The audit review focused on the following areas: management and control of government subvention, corporate governance, strategic management, staff recruitment, financial control and cash management, procurement and stores management, and performance measurement and reporting. The audit recommendations were generally accepted by SARDA and the Administration. Two examples of areas for improvement identified by Audit are given below:

- (a) **Management and control of government subvention.** SARDA is required to observe DH subvention guidelines. In the past few years, there had been prolonged discussions and arguments (“disputes”) between SARDA and the DH mainly about the legitimacy of the DH’s authority in giving directions to SARDA on administrative matters. Audit conducted a questionnaire survey on the EC members and the government representatives in the EC. The majority of the respondents (including government representatives) considered that the disputes had adversely affected the efficiency and effectiveness of SARDA and the DH in performing their duties. They also believed that the establishment of a funding and service agreement (FSA) would help avoid potential disputes in future and foster a more harmonious working relationship. Audit has recommended that the Director of Health should accord priority to establishing, in consultation with SARDA, an FSA between SARDA and the DH; and
- (b) **Corporate governance.** Audit found that the attendance of some members at committee meetings was low. Despite the low attendance (i.e. 50% or below) of a number of voting members and co-opted members at EC meetings, Audit found that they were re-elected or re-appointed to the EC. Audit has recommended that SARDA should: (i) take measures to improve the attendance of members at committee meeting; and (ii) before the EC election, draw all members’ attention to the attendance of individual EC members who stand for re-election, and duly take into account the attendance history of committee members in considering their re-appointment.

Report No. 51 Chapter 2: Administration of the DesignSmart Initiative

3.13 **Background.** In June 2004, the Government launched the DesignSmart Initiative (DSI) with a funding commitment of \$250 million. The DSI comprised two programmes, the Design Support Programme (DSP) and the InnoCentre Programme. Under the DSP, \$180 million was set aside for financing projects under four funding schemes, namely: (a) Design Research Scheme (DRS); (b) Design-Business Collaboration Scheme (DBCS); (c) Professional Continuing Education Scheme (PCES); and (d) General Support Scheme (GSS). Under the InnoCentre Programme, \$45 million was allocated to the HKDC for supporting its operation and \$25 million was allocated to the Hong Kong Science and Technology Parks Corporation (HKSTPC) for running an incubation programme for design ventures. The Innovation and Technology Commission (ITC) is responsible for managing the DSI.

3.14 **Audit review.** The audit review focused on the following areas: management of projects funded by the DSP, promotion of design by the HKDC, corporate governance and administration of the HKDC, administration of the Design Incubation Programme, and overseas practices in the promotion of design. The audit recommendations were accepted by the Administration, the HKDC, and the HKSTPC. Two examples of areas for improvement identified by Audit are given below:

- (a) **Management of projects funded by the DSP.** The ITC had conducted reviews only on the DRS and the DBCS. Audit considers that the PCES and the GSS also need to be reviewed. As the total number of projects which benefited from the DSP (169 as at June 2008) was much lower than that expected (i.e. 700 by June 2009), the ITC needs to conduct an overarching review of the DSP. Audit has recommended that the Commissioner for Innovation and Technology should conduct: (i) reviews on the operation of the PCES and the GSS; and (ii) an overarching review of the DSP to ascertain the reasons for low utilisation of some of its funding schemes, and to identify areas for improvement; and
- (b) **Corporate governance and administration of the HKDC.** The HKDC was established in 2001. It is governed by a Board of Directors (Board). The Finance and Administration Committee (FAC) and the Business Development Committee of the HKDC were set up in June 2007 to assist the Board to conduct its business. Audit found that, from March 2007 to June 2008, some directors had low attendance records at Board/Committee meetings. Furthermore, at three (60%) of the five FAC meetings held during the period, the quorum requirement was not met. This might render the decisions made at these meetings invalid. Audit has recommended that the HKDC should: (i) issue reminders to those directors with low attendance records, urging them to make efforts to attend Board/Committee meetings; and (ii) ensure that the quorum requirement is always met at all meetings.

Report No. 51 Chapter 4: Emergency ambulance service

3.15 **Background.** The Ambulance Command of the Fire Services Department (FSD) is responsible for the provision of the emergency ambulance service, comprising pre-hospital care, and conveyance of patients and casualties to hospitals. As at 30 June 2008, the Ambulance Command had an establishment of 131 ambulance officers and 2,298 ambulancemen, and a fleet of 252 ambulances, 4 mobile casualty treatment centres and 34 ambulance motorcycles. In 2008-09, the estimated expenditure for the emergency ambulance service is \$948 million.

3.16 **Audit review.** The audit review focused on the following areas: use of the emergency ambulance service, performance measurement, use of ambulance resources, maintenance of ambulances, and procurement of replacement and additional ambulances. The audit recommendations were accepted by the Administration. Two examples of areas of improvement identified by Audit are given below:

- (a) **Performance measurement.** Since November 1998, the FSD has adopted the performance target of answering 92.5% of the emergency calls within a target response time of 12 minutes. For the period from January to June 2008, the

FSD failed to achieve the performance target. The 12-minute target response time comprises 2 minutes for activation and 10 minutes for an ambulance to travel to the scene of incident. With the implementation of the Third Generation Mobilising System in June 2005, ambulance resources of individual districts are flexibly deployed to answer the emergency calls in all districts to shorten the ambulances' travelling time to the scene of incident. However, the percentage of emergency calls answered within the 10-minute travelling time decreased from 91.2% in 2004 to 87.4% for the first six months of 2008. In addition, since 1999, the FSD had not conducted any review of the 12-minute target response time. Audit has recommended that the Director of Fire Services should: (i) ascertain the reasons for the decrease in the percentage of emergency calls answered within the 10-minute travelling time despite the implementation of the Third Generation Mobilising System; (ii) introduce measures to improve the response time of ambulances; and (iii) promptly conduct a comprehensive review of the response time; and

- (b) ***Procurement of replacement and additional ambulances.*** As at 30 June 2008, 244 ambulances had been in service, on average, for 8.1 years. The average age of the FSD ambulance fleet increased from 5.36 years in 2003 to 7.61 years in 2007. The number of aged ambulances increased from 23 in 2003 by 6.7 times to 178 in 2007. The significant increase in aged ambulances is probably one of the reasons for the increase in the downtime due to sudden breakdowns of ambulances. However, the FSD did not keep management information on the breakdown and maintenance history of individual ambulances. It was difficult for the FSD to justify the replacement of its aged ambulances. Audit has recommended that the Director of Fire Services should: (i) provide comprehensive management information on the breakdown and maintenance history of the ambulances to substantiate the request for their replacement; (ii) review the methodology of determining the number of ambulances to be replaced; and (iii) conduct a comprehensive review of the serviceability of the ambulance fleet.

Report No. 51 Chapter 6: Management of public markets

3.17 ***Background.*** Since January 2000, the Food and Environmental Hygiene Department (FEHD) has taken over the responsibility for managing public markets. As at 30 June 2008, the FEHD managed 104 public markets, comprising 79 wet markets and 25 stand-alone cooked food markets, under the Public Health and Municipal Services Ordinance (Cap. 132). These markets together provided a total of 14,900 stalls, of which 11,390 (76%) were let out and 3,510 (24%) were vacant. In 2007-08, the FEHD incurred a deficit of \$160 million in operating the public markets.

3.18 ***Audit review.*** The audit review focused on the following areas: usage of public markets, market stall rentals and charges, problem of stall subletting, management of a public market in Kowloon, and planning of new public markets. The audit recommendations were accepted by the Administration. Two examples of areas of improvement identified by Audit are given below:

- (a) ***Usage of public markets.*** Arising from the current public market policy review, the Food and Health Bureau and the FEHD would use the criteria of "consistently

high vacancy rate exceeding 60%” and “big deficits” to assess the viability of a public market. Audit, however, noted that many less vibrant public markets, though not meeting the stall vacancy rate of 60%, had very low patronage and had incurred deficits. These markets were not providing active market services. Audit has recommended that the Secretary for Food and Health and the Director of Food and Environmental Hygiene should conduct an early review of those public markets identified to have very low usage and which are not providing active market services; and

- (b) ***Problem of stall subletting.*** According to market stall tenancy agreement, a tenant is not allowed to sublet his stall. Nevertheless, a tenant may engage registered assistants (RAs) to run the stall for him. In July 2008, Audit selected stalls from four public markets (with higher subletting risks) for conducting business registration search in the Inland Revenue Department. The results indicated that for some stalls, the tenants were not the business owners. Instead, businesses were carried on by RAs or third parties. Given that the Government is heavily subsidising the public markets, improper subletting of market stalls for profit is unacceptable. Audit has recommended that the Director of Food and Environmental Hygiene should follow up on the suspected subletting cases identified by Audit and conduct checking in other public markets to identify improper subletting.

Report No. 51 Chapter 11: Reduction and recovery of municipal solid waste

3.19 ***Background.*** Municipal solid waste (MSW) mainly comprises domestic waste, and commercial and industrial waste. In 2007, 3.44 million tonnes of MSW were disposed of at landfills. The provision and operation of landfills in Hong Kong are costly. The three existing landfills, which occupy 270 hectares of land, cost \$6 billion to build and \$400 million a year to operate.

3.20 ***Audit review.*** The audit review focused on the following areas: strategic management of MSW, progress of MSW recovery, implementation of domestic waste-recovery programmes, and implementation of non-domestic waste-recovery programmes. The audit recommendations were accepted by the Administration. Two examples of areas of improvement identified by Audit are given below:

- (a) ***Strategic management of MSW.*** Under the 1998 Framework Plan, the Administration set a target of reducing the quantity of MSW requiring disposal at landfills to 2.75 million tonnes by 2007 (in 2001, the target was revised to 3.7 million tonnes). The 2005 Policy Framework further set out a target of reducing the MSW disposed of at landfills to less than 25% of the total MSW generated by 2014. In 2007, 3.44 million tonnes of MSW, accounting for 55% of the MSW generated, were still disposed of at landfills. Some Asian cities only disposed of small percentages (3% to 16%) of their MSW at landfills. Audit has recommended that the Secretary for the Environment should, in collaboration with the Director of Environmental Protection, expedite action with a view to reducing the Government’s reliance on landfills for MSW disposal; and
- (b) ***Progress of MSW recovery.*** Paper waste and plastic waste were the two main types of recyclable waste, accounting for 55% of MSW generated in 2007.

Audit noted that the Government had taken action to assist the paper and plastic recovery and recycling industries. The Lands Department had let out short-term tenancies on land exclusively for the recovery and recycling industries, and the Environmental Protection Department had developed the EcoPark for these industries. However, Audit noted that only 56% of paper waste and 57% of plastic waste were recovered, and the remaining were disposed of at landfills. Audit has recommended that the Director of Environmental Protection should take further measures to improve the recovery of paper waste and plastic waste.

Looking ahead

3.21 The public has a legitimate interest in knowing whether public moneys have been used as efficiently and effectively as possible. Audit, as the guardian of the public purse, plays an important role in addressing the public demand on this matter. Our VFM audit aims at making value-added recommendations to help the auditees improve governance, and enhance accountability and cost-effectiveness. There is a need for Audit to conduct VFM audits that address issues of public concern. In particular, the public are very concerned about the corporate governance of publicly-funded non-governmental organisations as our recent audits have revealed various governance problems with such organisations. This area will continue to be an important area of concern in our VFM audits. We will continue to conduct independent, professional and quality audit 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 keep its stakeholders informed and engaged.

The year under review

4.3 For 2008-09, 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. Our corporate services work included:

- (a) the Director of Audit's Report production work — Reports No. 50 and 51, and Report on the Accounts of the Government of the HKSAR for the year ended 31 March 2008;
- (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) visit by the PAC;
 - (iii) visit by the Secretary for the Civil Service;
 - (iv) speeches and presentations by the Director of Audit;

- (v) participation in the International Public Sector Convention 2009 and visit to the Audit Office of New South Wales, Australia;
 - (vi) participation in the Asian Organisation of Supreme Audit Institutions Environmental Audit Seminar;
 - (vii) training seminar for the Audit Office of Guangdong Province; and
 - (viii) receiving visitors from the Mainland and overseas; and
- (e) training and development programmes.

The Director of Audit's Report production work

— Reports No. 50 and 51, and Report on the Accounts of the Government

4.4 The Director of Audit's Reports No. 50 and 51 were issued in March and October 2008. They include the results of VFM audits completed during the period October 2007 to February 2008 and the period March to September 2008 respectively. Together with Report No. 51, the Report of the Director of Audit on the Accounts of the Government of the HKSAR for the year ended 31 March 2008 was also issued in October 2008.

4.5 Report No. 50 was tabled in LegCo on 9 April 2008. It contains seven chapters, two of which were considered by the PAC during their public hearings held in April 2008. The Report on the Accounts of the Government of the HKSAR for the year ended 31 March 2008 and Report No. 51 were tabled in LegCo on 26 November 2008. Report No. 51 contains 12 chapters, 4 of which were considered by the PAC during their public hearings held in December 2008 to March 2009. 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.

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 2008-09, which was issued in June 2008, set out the broad directions for conducting our core businesses and the key initiatives planned for the audit year September 2008 to August 2009. 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.

Environmental Report

4.9 Starting from 2001, an annual Environment Report has been issued to help promote environmental protection. The Environmental Report 2008 was the 8th 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 2008 is available on our website at 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 2008-09 to 2009-10 was issued in August 2008. 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 To increase the efficiency and effectiveness of the Commission's IT communication system, a secure network has been implemented so that staff of the Commission working in outside offices can access their emails in the Lotus Notes. The bandwidth of the Commission's internal network was also upgraded from 100 megabytes to 1 gigabytes. The security of data transfer and backup is enhanced after the introduction of Universal Serial Bus (USB) flash drives with hardware encryption. Seminars on USB flash

drives' encryption were held for our staff.

Quality assurance work

4.14 The Technical Administration Branch of the Commission carried out technical audit of all the chapters included in Report Nos. 50 and 51 of the Director of Audit to ensure their accuracy and quality. The Branch also carried out a quality assurance review of Chapter 10 of Report No. 51 of the Director of Audit "Provision of recreation and sports services". 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 attended by the Director:

- (a) the cocktail reception of the 2008 Annual Dinner of the Association of International Accountants – Hong Kong Branch on 11 April 2008;
- (b) the Society of Chinese Accountants and Auditors' 95th Anniversary Celebration Dinner on 17 April 2008;



The Society of Chinese Accountants and Auditors' 95th Anniversary Celebration Dinner on 17 April 2008

- (c) the Annual Dinner of the Association of Chartered Certified Accountants (ACCA) Hong Kong on 23 May 2008;
- (d) the Canadian Certified General Accountants Association of Hong Kong (CGA Hong Kong) 100th Anniversary Celebration Dinner on 24 November 2008;



**The CGA Hong Kong 100th
Anniversary Celebration Dinner
on 24 November 2008**

- (e) the HKICPA Annual Dinner on 3 December 2008;



**The HKICPA Annual Dinner
on 3 December 2008**

- (f) the Annual Dinner of the Hong Kong Institute of Chartered Secretaries on 8 January 2009;
- (g) the Director took part in the following media interviews:
- (i) the Commercial Radio on 21 April 2008 in the programme “On a Clear Day”; and
 - (ii) “INTHEBLACK”, the official magazine of CPA Australia, on 26 September 2008 and 5 February 2009; and
- (h) the Director was conferred Honorary Membership by CPA Australia on 12 February 2009 in recognition of his exemplary contribution and leadership in business and the community.

Visit by the PAC

4.16 On 6 November 2008, the Chairman, the Deputy Chairman and two Members of the PAC, as well as some LegCo secretariat staff, visited the Commission. The Director of Audit extended a warm welcome and gave a presentation on the work of the Audit Commission to the visitors. A very constructive exchange of views on various aspects of public sector auditing was made between the visitors and our senior officers.



Visit by the Members of the PAC on 6 November 2008

Visit by the Secretary for the Civil Service

4.17 Miss Denise Yue, Secretary for the Civil Service, visited the Audit Commission on 18 July 2008. Miss Yue toured around the office and met our staff at work. At the tea gathering with our Directorate officers and members of the Departmental Consultative Committee, issues including the proposed merger of the Auditor and the Examiner grades and manpower planning of the departmental grades were discussed.



Visit by the Secretary for the Civil Service on 18 July 2008

Speeches and presentations by the Director of Audit

4.18 In 2008-09, the Director of Audit participated in a number of activities and delivered speeches and presentations on subjects related to our work to various organisations. The following are the key events:

- (a) attended as the guest of honour of the Annual Dinner of the Chartered Institute of Management Accountants – Hong Kong Division on 16 May 2008 and presented a speech to the participants;
- (b) gave a speech on “Value for money audit and governance of non-government organisations” on 3 June 2008 to members of the CGA Hong Kong;
- (c) as the Keynote Speaker, made a speech on “Performance audit of the public sector” at CPA Australia Forum – Business Excellence with a Conscience on 24 October 2008;



Speaking at CPA Australia Forum on 24 October 2008

- (d) attended the Annual Dinner cum 20th Anniversary Celebration Ceremony of the Hong Kong Institute of Accredited Accounting Technicians on 27 November 2008 and delivered a speech to the participants on the role of the Director of Audit; and
- (e) attended the CGA Hong Kong's Conference on Fraud Risk Management on 12 January 2009 and delivered an opening speech.

***Participation in the International Public Sector Convention 2009
and visit to the Audit Office of New South Wales, Australia***

4.19 The Director of Audit attended the “International Public Sector Convention 2009” organised by CPA Australia in Sydney from 18 to 20 March 2009. The Convention embraced a world of insights and solutions to face the ever-changing nature and roles of the public sector. The Director shared his experience in corporate governance and VFM audit with other participants and in particular met Auditor-Generals from other parts of Australia at the Convention. The Director also took the opportunity to visit the Audit Office of New South Wales and met Mr Peter Achterstraat, Auditor-General of New South Wales. They exchanged views on various aspects of public sector auditing.



**Director of Audit
attended the
International Public
Sector Convention 2009**

***Participation in the Asian Organisation of
Supreme Audit Institutions Environmental Audit Seminar***

4.20 From 14 to 23 October 2008, Mr Albert Wong, Principal Auditor, and Mr Jay Wong, Senior Auditor, of the Audit Commission attended the Asian Organisation of Supreme Audit Institutions (ASOSAI) Environmental Audit Seminar in Hangzhou organised by the National Audit Office of the People’s Republic of China. In the Seminar, our staff presented a paper on “Audit on climate change and air pollution prevention” and shared our experience in environmental audit with other participants.



Participants at the ASOSAI Environmental Audit Seminar in Hangzhou

Training seminar for the Audit Office of Guangdong Province

4.21 In response to the invitation of the Audit Office of Guangdong Province, Mr Teo Wing-on, Senior Auditor, and Mr Francis Po, Auditor, of the Audit Commission visited Guangzhou and conducted a half-day seminar on regularity audit and VFM audit for about 200 officials from the Audit Office of Guangdong Province on 5 August 2008. Through case studies, our staff shared their experience in conducting VFM audits and made constructive exchange of views on various aspects of public sector auditing with the participants.



Half-day seminar for officials from the Audit Office of Guangdong Province

4.22 Before the seminar, Mr Lan Fo-an, Director of Audit Office of Guangdong Province met the staff of the Commission. Mr Lan thanked the two officers for coming to Guangzhou and expressed his desire for maintaining a close tie between the Audit Office of Guangdong Province and the Audit Commission. After the seminar, Mr Lan commended the two officers for their professionalism and the usefulness of the talk.



Audit staff met Mr Lan Fo-an, Director of Audit Office of Guangdong Province (centre)

Receiving visitors from the Mainland and overseas

4.23 In 2008-09, the Audit Commission held a number of seminars for visitors. These visits strengthened our links with our Mainland and overseas counterparts. The key events are as follows:

- (a) on 21 May 2008, we conducted a one-day training session on VFM audit for officials of the Audit Office of Guangdong Province. Through case studies, we

shared our experience in conducting VFM audit and exchanged views on various aspects of public sector auditing with the participants;

- (b) on 19 August 2008, Mr Lan Fo-an, Director of Audit Office of Guangdong Province, led a delegation to visit the Audit Commission. The Director of Audit and our senior officers met the delegation and had a constructive exchange of ideas with them on issues of mutual interest;



The delegation from the Audit Office of Guangdong Province met senior officers of the Commission

- (c) a delegation from the Guangzhou Municipal People's Congress visited the Commission on 26 September 2008. Our staff gave the delegation a presentation on our work. They showed great interests in our VFM audit work;
- (d) Mr Glenn Poole, Auditor-General of Queensland, visited the Audit Commission on 22 October 2008. Our senior officers had a meeting with Mr Poole to exchange views and discuss issues of mutual interests about public sector auditing;



Mr Glenn Poole (5th from the right) met senior officers of the Audit Commission

- (e) a study tour of officials from the tax authority of Jiangxi Province visited our office on 13 November 2008. Our staff gave the study tour a presentation on the work of the Commission;



Study tour of officials from the tax authority of Jiangxi Province

- (f) a study tour of officials from Jiangxi and Qinghai Provinces visited our office on 2 December 2008. Our staff gave them a presentation on our work. The visitors found the presentation, in particular our VFM audit work, interesting and useful for their future reference;



Study tour of officials from Jiangxi and Qinghai Provinces

- (g) a delegation from the Audit Office of Jiangsu Province visited our office on 10 December 2008. 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; and
- (h) a delegation of officials from Sichuan Province visited our office on 10 March 2009. Our staff gave them a presentation on our work. The visitors found the presentation interesting and informative.

Training and development programmes

4.24 ***The 2008 International Auditor Fellowship Program.*** Mr Lee Sik-yum, Principal Auditor, attended the 2008 International Auditor Fellowship Program organised by the United States Government Accountability Office (GAO) from 14 April to 15 August 2008. This was an 18-week comprehensive training course designed for middle to senior-level

public sector auditors around the world. The Program's objectives were to enhance the individual skills of participants, sustain professional competencies and skills through continuous learning, and strengthen professional networks.

4.25 ***Leadership in Action Programme.*** In 2008, two Senior Auditors, Mr Frederick Wong and Ms Aileen Siu, attended the Leadership in Action Programme organised by the Civil Service Training and Development Institute. The training programme aimed to help participants broaden their strategic horizons and advance their understanding of issues and challenges facing the public sector.

4.26 ***Work of the Audit Office of Guangdong Province.*** On 19 August 2008, Mr Lu Rong-chun of the Audit Office of Guangdong Province gave a talk on the socio-economic situations of Guangdong Province and the work of the Audit Office. Feedback from the participants was very positive. They found the seminar not only interesting but also very helpful in enabling them to better understand the work of the Commission's counterparts in Guangdong Province.



Presentation by Mr Lu Rong-chun of the Audit Office of Guangdong Province

4.27 ***One-day induction training programme for newly-recruited staff.*** On 6 March 2009, we conducted a one-day induction training programme for the newly-recruited staff of the Commission. The concepts and methodology for conducting regularity audit and VFM audit were covered in the training programme. Our Director and Deputy Director also shared their valuable audit experience with the participants.

Looking ahead

4.28 In 2008-09, we made great efforts to step up our public relations work, share with our Mainland counterparts our knowledge and experience in public sector auditing, improve our IT security, and enhance staff training. In the year ahead, we will continue with these efforts. All these efforts will help us continuously update our knowledge and technology, and enhance our standing, with a view to meeting the challenges facing us.

The 82 accounts certified in 2008-09

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) Early Retirement Ex-gratia Payment Fund for Aided Primary School Teachers
- (27) Early Retirement Ex-gratia Payment Fund for Aided Secondary School Teachers
- (28) Education Development Fund
- (29) Education Scholarships Fund
- (30) Emergency Relief Fund
- (31) Environment and Conservation Fund
- (32) Exchange Fund
- (33) Financial Reporting Council
- (34) Fire Services Department Welfare Fund
- (35) Fisheries Development Loan Fund
- (36) General Chinese Charities Fund
- (37) Government Flying Service Welfare Fund
- (38) Grant Schools Provident Fund
- (39) Grantham Scholarships Fund

- (40) High Court Suitors' Funds
- (41) HKSAR Government Scholarship Fund
- (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	2007-08 (Actual)	2008-09 (Revised Estimate)	2009-10 (Plan)
Regularity Audit					
Targets					
Number of Director of Audit's Reports submitted to LegCo	Report	1	1	1	1
Time required to certify the statements of accounts of the Government of the HKSAR after the end of each financial year	Month	7	7	7	7
Indicators					
Number of accounts certified	Account		82	82	81
Number of man-hours spent	Man-hour		81 594	84 969	88 084
Provision for regularity audit as percentage of total government spending	%		0.015	0.012	0.013
Value for Money Audit					
Targets					
Number of Director of Audit's Reports submitted to LegCo	Report	2	2	2	2
Number of VFM audit reports issued to audited bodies	Report	19	19	19	19
Indicators					
Number of man-hours spent	Man-hour		158 916	160 295	164 698
Provision for VFM audit as percentage of total government spending	%		0.034	0.026	0.028

Calendar of key events
(1 April 2008 to 31 March 2009)

Date	Event
9 April 2008	The Director of Audit's Report No. 50 was tabled in LegCo.
11 April 2008	The Director of Audit attended the cocktail reception of the 2008 Annual Dinner of the Association of International Accountants – Hong Kong Branch.
14 April to 15 August 2008	A Principal Auditor of the Commission attended the 2008 International Auditor Fellowship Program organised by the United States GAO.
17 April 2008	The Director of Audit attended the 95 th Anniversary Celebration Dinner of the Society of Chinese Accountants and Auditors.
18 April 2008	Mr Wang Yongjun, Director-General of Foreign Affairs Bureau, Ministry of Supervision, and Mr Wang Zhongguo of the National Bureau of Corruption Prevention visited the Commission. Audit gave a presentation to them on the work of the Commission.
21 April 2008	The Director of Audit was interviewed by the Commercial Radio.
7 to 8 May 2008	An Auditor of the Commission attended the “Government Information Forum 08” held in Singapore about transforming government operation through the management of internal and external information.
15 May to 4 June 2008	A Senior Auditor of the Commission attended the Leadership in Action Programme organised by the Civil Service Training and Development Institute.
16 May 2008	The Director of Audit attended the Annual Dinner of the Chartered Institute of Management Accountants – Hong Kong Division as a guest of honour and presented a speech to the participants.
21 May 2008	Audit conducted a one-day training session on VFM audit for officials from the Audit Office of Guangdong Province.
23 May 2008	The Director of Audit attended the Annual Dinner of the ACCA Hong Kong.
3 June 2008	The Director of Audit gave a speech on “Value for money audit and governance of non-government organisations” at a seminar organised by the CGA Hong Kong.
26 June 2008	A Principal Auditor of the Commission attended the Ernst & Young Hong Kong Internal Audit Directors' Roundtable about “Fraud – Moving from Reactive to Proactive”.
18 July 2008	Miss Denise Yue, Secretary for the Civil Service, visited the Audit Commission. She met our Directorate officers and members of the Departmental Consultative Committee.
5 August 2008	A Senior Auditor and an Auditor of the Commission visited Guangzhou and conducted a half-day seminar on regularity audit and VFM audit for about 200 officials from the Audit Office of Guangdong Province.
12 August 2008	Mrs Nancy Cheng, Assistant Auditor General of the Office of the Auditor General of Canada, visited the Audit Commission.

Appendix D
(Cont'd)

Date	Event
19 August 2008	Mr Lan Fo-an, Director of Audit Office of Guangdong Province, led a delegation to visit the Audit Commission. A member of the delegation gave a presentation on the work of the Audit Office of Guangdong Province to our staff.
9 September 2008	Our staff gave a presentation to about 40 Executive Officer Grade staff on the work of the Commission at a training course organised by the Civil Service Training and Development Institute.
25 September 2008	A delegation of officials from Shenzhen visited the Commission and a presentation about our work was given to them.
26 September 2008	The Director of Audit was interviewed by “INTHEBLACK”, the official magazine of CPA Australia.
26 September 2008	Audit held a seminar on the work of the Commission for a delegation from the Guangzhou Municipal People’s Congress.
14 to 23 October 2008	A Principal Auditor and a Senior Auditor of the Commission attended the ASOSAI Environmental Audit Seminar in Hangzhou organised by the National Audit Office of the People’s Republic of China.
22 October 2008	Mr Glenn Poole, Auditor-General of Queensland, visited the Audit Commission.
24 October 2008	The Director of Audit, as the Keynote Speaker, made a speech on “Performance audit of the public sector” at CPA Australia Forum – Business Excellence with a Conscience.
4 November 2008	Our staff gave a presentation to officials from Shanghai on regularity audit and VFM audit.
6 November 2008	The Director of Audit gave a presentation on the work of the Audit Commission to the Members of the PAC.
6 to 26 November 2008	A Senior Auditor of the Commission attended the Leadership in Action Programme organised by the Civil Service Training and Development Institute.
11 November 2008	A delegation of officials from Shenzhen visited our office and our staff gave them a presentation on our work.
13 November 2008	Our staff gave a presentation to a study tour of officials from tax authority of Jiangxi Province on the work of the Commission.
14 November 2008	Our staff gave a presentation to a delegation of officials from the Maoming City Audit Bureau on regularity audit and VFM audit.
24 November 2008	The Director of Audit attended the 100 th Anniversary Celebration Dinner of the CGA Hong Kong.
26 November 2008	The Director of Audit’s Report No. 51 and the Report on the Accounts of the Government of the HKSAR for the year ended 31 March 2008 were tabled in LegCo.
27 November 2008	The Director of Audit attended the Annual Dinner cum 20 th Anniversary Celebration Ceremony of the Hong Kong Institute of Accredited Accounting Technicians and delivered a speech to the participants.
2 December 2008	A study tour of officials from Jiangxi and Qinghai Provinces visited the Commission and our staff gave a presentation to them on the work of the Commission.
3 December 2008	The Director of Audit attended the Annual Dinner of the HKICPA.

Appendix D
(Cont'd)

Date	Event
10 December 2008	A delegation of officials from the Audit Office of Jiangsu Province visited our office and our staff give a presentation to them on our work.
15 to 17 December 2008	A Senior Auditor and an Auditor of the Commission attended the Audit Conference - Guangdong, Hong Kong and Macao held in Guangzhou.
8 January 2009	The Director of Audit attended the Annual Dinner of the Hong Kong Institute of Chartered Secretaries.
12 January 2009	The Director of Audit attended the CGA Hong Kong's Conference on Fraud Risk Management and delivered an opening speech.
5 February 2009	The Director of Audit had another interview by "INTHEBLACK", the official magazine of CPA Australia.
12 February 2009	The Director of Audit was conferred Honorary Membership by CPA Australia in recognition of his exemplary contribution and leadership in business and the community.
6 March 2009	A one-day induction training programme was conducted for the newly recruited staff of the Commission.
10 March 2009	A delegation of officials from Sichuan Province visited our office and a presentation on our work was given to them.
18 to 20 March 2009	The Director of Audit attended the "International Public Sector Convention 2009" organised by CPA Australia in Sydney. He also visited the Audit Office of New South Wales, Australia, and met Mr Peter Achterstraat, Auditor-General of New South Wales.

Acronyms and abbreviations

ACCA	Association of Chartered Certified Accountants
ASOSAI	Asian Organisation of Supreme Audit Institutions
Audit	Audit Commission
CGA Hong Kong	Canadian Certified General Accountants Association of Hong Kong
CSB	Civil Service Bureau
DBCS	Design-Business Collaboration Scheme
DH	Department of Health
DRS	Design Research Scheme
DSI	DesignSmart Initiative
DSP	Design Support Programme
EC	Executive Committee
FAC	Finance and Administration Committee
FEHD	Food and Environmental Hygiene Department
FSA	Funding and service agreement
FSD	Fire Services Department
GAO	Government Accountability Office
GFMS	Government Financial Management Information System
GPA	Government Property Agency
GRA	General Revenue Account
GSS	General Support Scheme
HKDC	Hong Kong Design Centre
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSAR	Hong Kong Special Administrative Region

HKSTPC	Hong Kong Science and Technology Parks Corporation
INTOSAI	International Organisation of Supreme Audit Institutions
IT	Information technology
ITC	Innovation and Technology Commission
LegCo	Legislative Council
MSW	Municipal solid waste
PAC	Public Accounts Committee
PCES	Professional Continuing Education Scheme
POW	Programme of work
RAs	Registered assistants
SARDA	Society for the Aid and Rehabilitation of Drug Abusers
TID	Trade and Industry Department
USB	Universal Serial Bus
VFM	Value for money