

**HONG KONG SPECIAL
ADMINISTRATIVE REGION**

Audit Commission

Annual Report 2013-14

**Audit Commission
Hong Kong
July 2014**

AUDIT COMMISSION

ANNUAL REPORT 2013-14

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Director's Message

I am pleased to present the Annual Report of the Audit Commission for the financial year 2013-14. This was another busy year for the Commission. With the dedication and commitment of our staff, we have achieved the targets set in our work plan and continued to uphold a high standard of professionalism in our audit work.

2. Our mission is to help the Government and public sector organisations enhance public sector performance and accountability. We achieve this mission by conducting regularity audits and value for money (VFM) audits.

3. Regularity audits are similar to financial audits in the private sector. In 2013-14, a total of 82 accounts were audited and certified, including all of the Government's accounts, the accounts of the Hong Kong Housing Authority, the Exchange Fund, five Trading Funds and more than 60 other funds. VFM audits focus on providing independent information, advice and assurance about the economy, efficiency and effectiveness with which the auditees have discharged their functions. We aim to make value-added recommendations to help them achieve better VFM. In 2013-14, we issued a number of VFM audit reports which attracted considerable public interest.

4. To enhance our experience and knowledge about public sector auditing, we continued to attend conferences and various functions of professional bodies (e.g. I attended the 21st Congress of the International Organisation of Supreme Audit Institutions in Beijing in October 2013). We also received visitors from the Mainland and shared with them our audit experience.

5. Our values on professionalism, probity and people underpin and drive our work. The professionalism and expertise of our staff are vital to the success of the Commission. We will strive to help our people develop and grow as professionals. In this regard, we are committed to encourage and help our staff realise their full potential through training, learning and sharing.

6. The Commission celebrates our 170th anniversary this year. It has a long tradition of excellence and will seek to deliver more value through our regularity, risk and VFM audits in the ensuing years.

7. I am grateful for the continuous support of the Public Accounts Committee of the Legislative Council to our work over the past year, and would like to acknowledge with gratitude the full cooperation and assistance rendered by the Administration. I would also like to extend my heartfelt appreciation to all my staff for their unfailing support. Their commitment, dedication and professionalism have enabled the Commission to deliver quality audit services and earned the public's trust on our work.

David Sun, BBS, JP
Director of Audit
July 2014



Role and work of the Audit Commission

1. ***Independence.*** 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.
2. ***Audit Ordinance.*** The [Audit Ordinance \(Cap. 122\)](#) provides for the duties and powers of the Director of Audit and for the auditing of and reporting on the public accounts. 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.
3. ***Reporting to the Legislative Council.*** According to the Audit Ordinance, the Director of Audit shall prepare and submit to the President of [Legislative Council](#) (LegCo) a report in respect of his examination and audit of the accounts of the Government. A copy of the report and certified statements shall be laid before LegCo. According to the [Value for Money Audit Guidelines](#), the Director of Audit shall report his findings on value for money (VFM) audits in LegCo twice a year.
4. ***Value for Money Audit Guidelines.*** VFM audit is carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the [Public Accounts Committee](#) (PAC) in February 1998. The VFM Audit Guidelines were agreed between the PAC and the Director of Audit and accepted by the Administration.
5. ***Public Accounts Committee.*** The PAC of LegCo 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.

6. ***Follow-up actions of the Audit Commission.*** For subjects selected for investigation by the PAC, the Director of Audit conducts an annual clearance exercise to inform the PAC of the latest developments of issues raised in the PAC's Reports. For subjects not selected for investigation by the PAC, the Director of Audit calls for separate progress reports from the auditees concerned directly on a half-yearly basis, and reviews the latest developments.

7. ***Organisation of the Audit Commission.*** The Audit Commission (Audit) is made up of six Divisions, namely one Regularity Audit Division, four VFM Audit Divisions, and one Corporate Services Division. As at 31 March 2014, Audit had an establishment of 187 posts. There were 62 posts (33%) in the Auditor grade, 87 posts (47%) in the Examiner grade and 38 posts (20%) in the general and common grades.

Regularity audit

8. 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. Regularity audit is carried out mainly under the Audit Ordinance and in accordance with the Audit Commission auditing standards.

9. Regularity audit is conducted in accordance with a programme of work, which is determined annually by the Director of Audit. Audit adopts a risk-based approach to the planning and conduct of regularity audit. Compared with private-sector auditors, we put more emphasis on the regularity and probity aspects due to the 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.

The year under review

10. On 31 October 2013, 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 2013 to the President of LegCo.

11. In 2013-14, a total of 82 accounts were audited and certified, i.e. all of the Government's accounts, the accounts of the Hong Kong Housing Authority, the Exchange Fund, five Trading Funds and 65 other funds. Appendix A is a list of these 82 accounts.

12. Our regularity audit workload has been increasing because we have to cope with the additional workload arising from:

- (a) ***Increase in government spending and new government initiatives.*** There has been a significant rise in government spending from \$377 billion in 2012-13 to \$436 billion in 2013-14. Moreover, the Government has, over the years, launched a number of new initiatives (e.g. the Public Transport Fare Concession Scheme) and provided various subsidies to eligible recipients (e.g. the Old Age Living Allowance). In view of the increase in scope and complexity of the government spending and the launch of new government initiatives, it has been necessary for Audit to carry out more in-depth reviews or risk audits to ensure that the programmes have been operated within the approved ambit and that the funds have been expended in accordance with laid-down policy objectives and conditions; and
- (b) ***New accounting and auditing standards.*** As part of the international standards convergence project, the Hong Kong Institute of Certified Public Accountants continues to issue new and revised accounting and auditing standards from time to time. These accounting and auditing standards may affect the financial statements of the auditees prepared under accrual basis of accounting. We have to deploy resources to implement the new auditing requirements, and to ensure compliance with the new and revised accounting standards by the auditees in preparing their financial statements.

Value for money audit

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

14. VFM audits are carried out under the VFM Audit Guidelines. Like regularity audits, VFM audits are conducted in accordance with the Audit Commission auditing standards and a programme of work determined annually by the Director of Audit. 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

15. In 2013-14, two Director of Audit's Reports on the results of VFM audits were submitted to the President of LegCo in April (Report No. 60) and October 2013 (Report No. 61), covering a total of 18 audit subjects. The [Director of Audit's Report No. 60](#) has eight subjects while the [Director of Audit's Report No. 61](#) has ten subjects.

16. The PAC has selected the following six subjects for public hearing:

- (a) administration of road safety measures, pre-primary education voucher scheme, and preventive education and enlisting public support against corruption in Report No. 60; and
- (b) direct land grants to private sports clubs at nil or nominal premium, management of roadside skips, and allocation and utilisation of public rental housing flats in Report No. 61.

The PAC examined at length a number of issues raised in the audit reports. The audit conclusions and recommendations were generally accepted by the PAC and the auditees. 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.

Corporate services

17. 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, information technology (IT) support, and other support services.

The year under review

18. In 2013-14, our work on corporate services included:

- (a) ***Director of Audit's Report production work.*** The Director of Audit's Report Nos. 60 and 61 were submitted to the President of LegCo in April and October 2013 respectively. Together with Report No. 61, the Report of the Director of Audit on the Accounts of the Government of the HKSAR for the year ended 31 March 2013 was also submitted to the President of LegCo in October 2013. The Director of Audit's Reports are available on our website at http://www.aud.gov.hk/eng/pubpr_arpt/rpt.htm;
- (b) ***Support services.*** This work included:
 - (i) ***Strategic Framework.*** The Strategic Framework was issued in July 2013. It sets out the Audit Commission's Vision, Mission and Values (see Appendix B). It also outlines the Commission's strategic objectives, strategies and outcomes in five Key Result Areas. Appendix C shows the key targets and indicators of the Commission. The Strategic Framework is available on our website at http://www.aud.gov.hk/pdf_e/strategic_e.pdf;
 - (ii) ***Environmental Report.*** Starting from 2001, an annual Environmental Report has been issued to help promote environmental protection. The Environmental Report 2013 is available on our website at http://www.aud.gov.hk/eng/otherinfo/info_envrpt.htm;
 - (iii) ***Media research.*** 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 to identify areas of improvement; and

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- (iv) ***IT support.*** Our Departmental IT Plan for the two-year period 2013-14 to 2014-15 was prepared in September 2013. It was used to monitor the development of IT projects in the Commission;
- (c) ***External and press relations.*** This work included:
 - (i) ***Public relations work.*** The Director of Audit attended various functions of professional bodies to exchange experience and knowledge about public sector auditing and took part in media interviews to explain our work in 2013-14;
 - (ii) ***Presentations and talks by the Director of Audit.*** In 2013-14, the Director delivered a number of presentations and talks on subjects related to our work to various organisations;
 - (iii) ***Visit to the Audit Office of Guangdong Province.*** The Director of Audit and three Audit staff visited the Audit Office of Guangdong Province on 3 and 4 September 2013. The Director of Audit also met Mr Zhu Xiaodan, the Governor of Guangdong Province, during the visit;
 - (iv) ***Participation in conferences.*** Staff members of the Commission attended the "Cross straits, Hong Kong and Macao Audit Theories and Practices Conference 2013" in Taiwan in May 2013, and the "Guangdong-Hong Kong-Macao Audit Conference 2013 — Practice and Future Directions of Education Audits" in Shaoguan in August 2013. The Director of Audit and an Audit staff attended the 21st Congress of the International Organisation of Supreme Audit Institutions in Beijing in October 2013; and
 - (v) ***Receiving visitors from the Mainland.*** In 2013-14, the Commission held seven seminars for visitors to the Commission. Our staff gave presentations on our work; and
- (d) ***Training and development programmes.*** We have made use of the services provided by the Civil Service Training and Development Institute to meet the training needs of our staff. Staff are encouraged to apply for courses relevant to their work and personal needs. In-house seminars/workshops are also organised mainly to address the operational needs of the Commission and the personal development of our staff. An

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Audit staff attended a 10-week training programme in the United Kingdom in 2013-14.

Looking ahead

19. This year marked the Commission's 170th anniversary. The Commission has a long history of excellence in providing independent, professional and quality audit services to help the Government and public sector organisations enhance public sector performance and accountability. We will continue to uphold our values, maintain our independent role, provide quality audit services, maintain effective relation with our stakeholders, interact with our counterparts and develop the potential of our staff to uphold our motto of "excellence in public sector auditing".

The 82 accounts certified in 2013-14

Accounts of the Government

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

Trading Funds

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

Other Funds

- (16) AIDS Trust Fund
- (17) Bankruptcy Estates Account
- (18) Brewin Trust Fund
- (19) Chinese Temples Fund
- (20) Companies Liquidation Account
- (21) Correctional Services Children's Education Trust
- (22) Correctional Services Department Welfare Fund
- (23) Customs and Excise Service Children's Education Trust Fund
- (24) Customs and Excise Service Welfare Fund
- (25) Director of Social Welfare Incorporated Accounts
- (26) District Court Suitors' Funds
- (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) MacLehose Fund
- (53) Master in Lunacy Account
- (54) Minor Employment Claims Adjudication Board Suitors' Funds

- (55) Official Administrator's Account
- (56) Official Receiver in Bankruptcy Account
- (57) Official Receiver in Voluntary Arrangement Account
- (58) Official Solicitor's Accounts
- (59) Pneumoconiosis Ex Gratia Fund
- (60) Police Children's Education Trust
- (61) Police Education and Welfare Trust
- (62) Police Welfare Fund
- (63) Prisoners' Education Trust Fund
- (64) Prisoners' Welfare Fund
- (65) Quality Education Fund
- (66) Queen Elizabeth Foundation for the Mentally Handicapped
- (67) Research Endowment Fund
- (68) Samaritan Fund
- (69) Secretary for Home Affairs Incorporated Accounts
- (70) Self-financing Post-secondary Education Fund
- (71) Sing Tao Charitable 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 in order to help the Government and public sector organisations enhance public sector performance and accountability in Hong Kong.

We achieve our Mission by:

- 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
- 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. We share a set of core values including *Professionalism*, *Probity* and *People-oriented*, which underpin all facets of our work including *Our services*, *Our culture and Our people*. These core values and their related attributes, as illustrated below, define the way we conduct ourselves in all the work we do.



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.

Independence

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

Innovation

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

Adding value

We are committed to adding value to public sector management by delivering quality audit services.

Probity

We act in an open, honest and ethical manner.

Fairness

We strive to be fair, just and impartial in conducting our work.

Courage

We support our people and work but are open to make changes and improvements.

Accountability

We are committed to enhancing our economy, efficiency and effectiveness, and reporting our work to our stakeholders.

People-oriented

We are committed to creating a work environment which values our staff and helps them realise their full potential.

Teamwork

We work as a team to bring out the best in our staff so that each person may contribute to the achievement of our Vision and Mission.

Continuous development

We are committed to developing our staff through mentoring, training, learning and sharing.

Responsiveness

We are vigilant and closely monitor the issues of concern to our stakeholders, and try our best to meet their needs and expectations.

Key Targets and Indicators

	Unit	Target	2012-13 (Actual)	2013-14 (Revised Estimate)	2014-15 (Plan)
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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	84 187	87 604	93 937
Provision for regularity audit as percentage of total government expenditure	%	0.011	0.010	0.011

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	18	19 [^]	18	18

Indicators

Number of man-hours spent	Man-hour	157 578	167 431	173 017
Provision for VFM audit as percentage of total government expenditure	%	0.024	0.022	0.024

[^] including a special report on the hotel accommodation arrangements for the former Chief Executive's duty visits outside Hong Kong.

Acronyms and abbreviations

Audit	Audit Commission
HKSAR	Hong Kong Special Administrative Region
IT	Information technology
LegCo	Legislative Council
PAC	Public Accounts Committee
VFM	Value for money