

**HONG KONG SPECIAL
ADMINISTRATIVE REGION**

Audit Commission

Annual Report 2019-20

**Audit Commission
Hong Kong
September 2020**

AUDIT COMMISSION

ANNUAL REPORT 2019-20

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Director's Message

The social unrest in the second half of 2019 and the novel coronavirus epidemic since early 2020 have brought unprecedented challenges for Hong Kong as well as the Audit Commission. I am pleased that amid these challenges, our staff have stayed fully committed to their duties by providing independent, professional and quality public audit services, and continued to achieve our performance targets with high quality 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 2019-20, a total of 86 accounts were audited and certified, including all of the accounts of the Government, and the accounts of the Hong Kong Housing Authority, the Exchange Fund, five Trading Funds and more than 60 other funds. We also perform risk and compliance audits to help ensure that government systems/programmes are operating within the approved ambit and that the spending is incurred in accordance with laid-down policy objectives and conditions. As an integral part of our regularity audit work, risk and compliance audits supplement our normal certification audit work.

4. 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 will take into account various factors such as materiality, risk and auditability in selecting subjects for VFM audits. We aim to make value-added recommendations to help the auditees achieve better VFM. In 2019-20, we issued a number of VFM audit reports which attracted considerable public attention.

5. To enhance our experience and knowledge about public sector auditing, we continued to attend conferences and various functions of professional bodies. In September 2019, at the invitation of the National Audit Office of the People's Republic of China, an audit staff and I attended the 23rd Congress of the International Organisation of Supreme Audit Institutions held in Moscow as members of the People's Republic of China Delegation. In November 2019, four audit staff and I attended the 6th Guangdong-Hong Kong-Macao Audit Conference 2019 organised by the Audit Office of the Guangdong Province at Huizhou. Our staff also received local, Mainland and overseas visitors, and shared with them our audit experience.

6. We shall continue to uphold our values on professionalism, probity and people, which underpin and drive our work. The professionalism and expertise of our audit staff are vital to the success of the Commission. We will strive to help our staff develop and grow as professionals to meet their full potential. In this regard, various training programmes are provided to all levels of audit staff. We are committed to encouraging and helping our staff realise their full potential through training, learning and sharing.

7. I am grateful for the continuous support of the Public Accounts Committee of the Legislative Council 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 express my heartfelt gratitude for the efforts made by all colleagues in rising to the challenges faced by the Audit Commission. Their hard work, resilience and professionalism have enabled the Commission to deliver quality audit services to help enhance public sector performance and accountability.

John Chu, JP
Director of Audit
September 2020



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). It shall function independently and be accountable to the Chief Executive.
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 this Ordinance the Director shall not be subject to the direction or control of any other person or authority. The certification audit work carried out under 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 audits are 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 Government.
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.*** The Audit Commission (Audit) has put in place a mechanism to monitor the development of VFM audit

subjects included in the Director of Audit's Reports. For subjects selected for investigation by the PAC, Audit conducts an annual clearance exercise to inform the PAC of the latest developments of issues raised in the PAC's Reports. The PAC, in its reports, takes stock of the progress of the action taken by the Government on the PAC's recommendations, and offers the PAC's views on the action taken. The Government's response to the PAC's Report is contained in the Government Minute which is tabled in LegCo twice a year. For subjects not selected for investigation by the PAC, Audit directly calls for separate progress reports from the auditees concerned on a half-yearly basis, and reviews the latest developments. If the situation warrants, Audit may conduct follow-up audit reviews on issues raised in previous VFM audits. The review results are published in the Director of Audit's Report.

7. ***Organisation of 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 2020, Audit had an establishment of 197 posts. There were 66 posts (33%) in the Auditor grade, 92 posts (47%) in the Examiner grade and 39 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 audits are carried out mainly under the Audit Ordinance and in accordance with the Audit Commission auditing standards.

9. Regularity audits are 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 statutory duties of the Director of Audit under section 8 of the Audit Ordinance. We supplement our normal certification audit work with a programme of risk and compliance audits, which examines risks related to regularity, propriety and financial control.

The year under review

10. On 30 October 2019, 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 2019 to the President of LegCo.

11. In 2019-20, a total of 86 accounts were audited and certified, i.e. all of the Government's accounts, and the accounts of the Hong Kong Housing Authority, the Exchange Fund, five Trading Funds and 69 other funds. Appendix A is a list of these 86 accounts.

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

- (a) ***Strengthening our risk and compliance audit programme.*** In view of the increase in the number of government systems/programmes that involved significant spending and transactions, Audit needs to carry out more in-depth reviews or risk and compliance audits on the systems/programmes. Attention has also been given to ensuring that the systems/programmes are operating within the approved ambit and that the spending is incurred in accordance with laid-down policy objectives and conditions. To help ensure regularity, propriety and controls, our efforts have been directed towards auditing/assessing the effectiveness of the bureaux/departments' preventive and detective controls, and follow-up and rectification processes of detected errors and irregularities;
- (b) ***New accounting and auditing standards.*** To maintain convergence with the international standards, the Hong Kong Institute of Certified Public Accountants continues to issue new and revised accounting and auditing standards from time to time. We have deployed 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 under accrual basis of accounting; and
- (c) ***Government spending in response to coronavirus disease (COVID-19) pandemic.*** In view of the COVID-19 outbreak, the Government has launched three rounds of relief measures with a total approved funding of \$287.5 billion as of September 2020, including \$150.5 billion injected into the Anti-epidemic Fund set up in February 2020. We will keep in view the related expenditures and devise audit procedures accordingly.

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 auditees (i.e. bureaux/departments of the Government, agencies, other public bodies, public offices or audited organisations) have discharged their 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. Our VFM audits are generally planned and scheduled about one year in advance, after taking into account the availability of our resources as well as factors such as materiality, timing, risk, auditability and value added in selecting subjects for VFM audit. In conducting VFM audits 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 2019-20, two Director of Audit's Reports on the results of VFM audits were submitted to the President of LegCo in April (Report No. 72) and October 2019 (Report No. 73), covering a total of 18 audit subjects. The [Director of Audit's Report No. 72](#) has eight subjects while the [Director of Audit's Report No. 73](#) has ten subjects.

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

- (a) "Planning, provision and management of public parking spaces" and "Employment services provided by the Labour Department" (Chapters 1 and 3 of Report No. 72); and
- (b) "Planning, provision and management of public toilets by the Food and Environmental Hygiene Department" and "Provision of consultancy, research and development and training services by the Hong Kong Productivity Council" (Chapters 1 and 2 of Report No. 73).

For the remaining 14 Chapters of the Director of Audit's Reports No. 72 and No. 73,

the PAC also showed great interest and investigated 13 of them by making written enquiries. 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.

17. As mentioned in paragraph 12 (c), the government response to COVID-19 is substantial and far-reaching. We will keep in view the related expenditures and situation as it develops, and consider whether there is a need to include the matters concerned in our programme of work pursuant to the selection criteria set out in paragraph 14.

Corporate services

18. The Corporate Services Division of the Commission is responsible for the provision of corporate services, which include overseeing matters relating to the PAC proceedings, 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

19. In 2019-20, our work on corporate services included:

- (a) ***Director of Audit's Report production work.*** The Director of Audit's Report Nos. 72 and 73 were submitted to the President of LegCo in April and October 2019 respectively. Together with Report No. 73, the Report of the Director of Audit on the Accounts of the Government of the HKSAR for the year ended 31 March 2019 was also submitted to the President of LegCo in October 2019. The Director of Audit's Reports are available on our website at https://www.aud.gov.hk/eng/pubpr_arpt/rpt.htm;
- (b) ***Support services.*** This work included:

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- (i) **Strategic Framework.** The Strategic Framework was last updated in August 2016 and reviewed in August 2019. It sets out the 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 https://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 2019 is available on our website at https://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
 - (iv) **IT support.** Our Departmental IT Plan for the two-year period 2019-20 to 2020-21 was approved by the Director of Audit in September 2019. 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 in 2019-20;
 - (ii) **Participation in conferences.** In September 2019, at the invitation of the National Audit Office of the People's Republic of China, the Director of Audit and an audit staff attended the 23rd Congress of the International Organisation of Supreme Audit Institutions held in Moscow as members of the People's Republic of China Delegation. In November 2019, the Director of Audit and four audit staff attended the 6th Guangdong-Hong Kong-Macao Audit Conference 2019 held at Huizhou, Guangdong Province. In the same month, three audit staff attended the "Cross Straits, Hong Kong and Macao Audit Theories and Practices Conference 2019" held in Taiwan;

- (iii) ***Receiving a delegation from the Association of International Certified Professional Accountants.*** In October 2019, a delegation of five members from the Association of International Certified Professional Accountants visited the Commission. The delegation was led by Mr Andrew Harding, Chief Executive of the Association's Management Accounting Unit. The Director of Audit and senior staff had a constructive exchange of views with the delegation on the latest developments in auditing; and
- (iv) ***Receiving visitors from the Mainland and overseas.*** In 2019-20, the Commission held three seminars for visitors from the Mainland and overseas. Our staff gave presentation to the visitors on the work of the Commission and shared with them our audit experience; and
- (d) ***Training and development.*** 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. In one of these seminars held in July 2020, we invited a delegation from the Hong Kong Institute of Certified Public Accountants to brief us on topics including new financial reporting standards and the work of the Institute. As a social distancing measure against COVID-19, the seminar was conducted using a hybrid mode (i.e. only a limited number of participants attended the seminar in the conference room while others watched the live broadcast of the seminar via a video conference tool in their workstations). Regarding overseas training, at the recommendation of the National Audit Office of the People's Republic of China, an audit staff attended the 2019 International Auditor Fellowship Program at the United States Government Accountability Office in 2019-20.

Looking ahead

20. 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. Year 2020 not only marks the Commission's 176th anniversary but also a year with unprecedented challenges. Amid the epidemic situation, we need to keep our *modus operandi* under review with a view to adapting to the rapidly evolving external environment. In addition, it is of paramount importance to continue to uphold our values, maintain our

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independent role, provide quality audit services, maintain effective relation with our stakeholders, interact with our counterparts and develop the potential of our staff to achieve “excellence in public sector auditing”.

The 86 accounts certified in 2019-20

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 Estate Account
- (18) Brewin Trust Fund
- (19) Chinese Temples Fund
- (20) Companies Liquidation Account
- (21) Competition Tribunal Suitors' Funds
- (22) Correctional Services Children's Education Trust
- (23) Correctional Services Department Welfare Fund
- (24) Customs and Excise Service Children's Education Trust Fund
- (25) Customs and Excise Service Welfare Fund
- (26) Director of Social Welfare Incorporated Accounts
- (27) District Court Suitors' Funds
- (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

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| (35) | Fisheries Development Loan Fund |
| (36) | General Chinese Charities Fund |
| (37) | Gifted Education Fund |
| (38) | Government Flying Service Welfare Fund |
| (39) | Grant Schools Provident Fund |
| (40) | Grantham Scholarships Fund |
| (41) | High Court Suitors' Funds |
| (42) | HKSAR Government Scholarship Fund |
| (43) | Hong Kong Court of Final Appeal Suitors' Funds |
| (44) | Hong Kong Housing Authority |
| (45) | Hong Kong Rotary Club Students' Loan Fund |
| (46) | Immigration Service Welfare Fund |
| (47) | Independent Commission Against Corruption Welfare Fund |
| (48) | J. E. Joseph Trust Fund |
| (49) | Kadoorie Agricultural Aid Loan Fund |
| (50) | Labour Tribunal Suitors' Funds |
| (51) | Lands Tribunal Suitors' Funds |
| (52) | Language Fund |
| (53) | Legal Aid Services Council |
| (54) | Li Po Chun Charitable Trust Fund |

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| (55) | MacLehose Fund |
| (56) | Master in Lunacy Account |
| (57) | Minor Employment Claims Adjudication Board Suitors' Funds |
| (58) | Official Administrator's Account |
| (59) | Official Receiver in Bankruptcy Account |
| (60) | Official Receiver in Voluntary Arrangement Account |
| (61) | Official Solicitor's Accounts |
| (62) | Pneumoconiosis Ex Gratia Fund |
| (63) | Police Children's Education Trust |
| (64) | Police Education and Welfare Trust |
| (65) | Police Welfare Fund |
| (66) | Prisoners' Education Trust Fund |
| (67) | Prisoners' Welfare Fund |
| (68) | Qualifications Framework Fund |
| (69) | Quality Education Fund |
| (70) | Queen Elizabeth Foundation for the Mentally Handicapped |
| (71) | Research Endowment Fund |
| (72) | Samaritan Fund |
| (73) | Secretary for Home Affairs Incorporated Accounts |
| (74) | Self-financing Post-secondary Education Fund |

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| (75) | Sing Tao Charitable Foundation Students' Loan Fund |
| (76) | Sir David Trench Fund for Recreation |
| (77) | Sir Edward Youde Memorial Fund |
| (78) | Sir Robert Black Trust Fund |
| (79) | Small Claims Tribunal Suitors' Funds |
| (80) | Social Work Training Fund |
| (81) | Student Activities Support Fund |
| (82) | Subsidized Schools Provident Fund |
| (83) | Supplementary Legal Aid Fund |
| (84) | The Legislative Council Commission |
| (85) | Traffic Accident Victims Assistance Fund |
| (86) | World Refugee Year Loan Fund |

Vision, Mission and Values

OUR 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.

OUR 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:

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| <ul style="list-style-type: none">- 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 | <ul style="list-style-type: none">- 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. |
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OUR 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.



Key Targets and Indicators

	Unit	Target	2018-19 (Actual)	2019-20 (Revised Estimate)	2020-21 (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		85	86 (Note 1)	86
Number of man-hours spent	Man-hour		94 439	102 016	105 333
Provision for regularity audit as percentage of total government expenditure	%		0.012	0.011	0.009
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	18	18	18
Indicators					
Number of man-hours spent	Man-hour		163 007	168 413	170 419
Provision for VFM audit as percentage of total government expenditure	%		0.022	0.020	0.017

Note 1: In 2019-20, one fund (namely Student Activities Support Fund) was added to the list of accounts to be certified.

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