

HONG KONG SPECIAL ADMINISTRATIVE REGION

Audit Commission

Annual Report 2005-06

**Audit Commission
Hong Kong
May 2006**

AUDIT COMMISSION
ANNUAL REPORT 2005-06

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MESSAGE FROM THE DIRECTOR

Annual Report

The Audit Commission (Audit) is one of the oldest government departments in Hong Kong. In 2005, Audit entered the 161st year of its long history. I am pleased and honoured to work in this Commission with a long and respectable tradition of professionalism and commitment. The Annual Report offers me a very good opportunity to record major areas of our work and highlight the challenges facing us. This Annual Report 2005-06 covers the period from 1 April 2005 to 31 March 2006.

Four main objectives

2. The four main objectives which I focused on as Director of Audit are:
- (a) ensure that Audit plays a positive and constructive role;
 - (b) maintain effective relationships with all stakeholders;
 - (c) enhance governance, accountability and transparency in the public sector; and
 - (d) improve the organisation and capability of Audit to meet the challenges in the 21st century.

Ensure that Audit plays a positive and constructive role

3. It is our mission to help the Government enhance public sector performance and accountability. In order to provide a value-added service to the community, we must continue to play a positive and constructive role in conducting our audit work. It is all the more important when we are dealing with subjects of great public concern.

4. In the past year, we issued a number of high-profile value for money (VFM) audit reports, notably the reviews of the Diesel vehicle emission controls, the Postal Mechanisation System at the Air Mail Centre, and the Development of a site at Sai Wan Ho. In all these reviews, we made great efforts to help the Government learn lessons and add value. Our recommendations were generally accepted by the Administration. Details about these reviews are set out in Chapter 3 on VFM Audit.

Maintain effective relationships with all stakeholders

5. The role of Audit is not always fully understood. Some sectors of the community still mistakenly believe that the primary role of Audit is simply to criticise the Government. We made efforts in the past year to do more public relations work targeted at different stakeholder groups with a view to dispelling this misconception.

6. I attended events organised by professional accountancy bodies and exchanged views with them. I also delivered a number of speeches and presentations on subjects related to our work to various organisations. Details of such public relations work are described in Chapter 4 on Corporate Services.

Enhance governance, accountability and transparency in the public sector

7. Audit helps the Government enhance governance, accountability and transparency in the public sector by conducting two types of audits: regularity audit and VFM audit. The implementation of accrual reporting is a key initiative of the Government for improving its financial accountability and transparency. We have been keeping a close watch on the development of accrual accounting in the Government, as it will have wide ramifications on our regularity audit work. We also keep in view the implementation of the new Government Financial Management Information System to see how it affects our work. Chapter 2 gives more details about our regularity audit work.

8. In recent years, governments worldwide have put governance and accountability issues high on their agenda. Hong Kong is no exception. In the past year, our VFM audit work put governance and public accountability in the limelight. We revealed a number of shortcomings in project administration in the procurement of major postal systems and identified scope for improvement in administering land grant for large scale development requiring the provision of government accommodation. Chapter 3 gives more details about these VFM audits.

Improve the organisation and capability of Audit to meet the challenges in the 21st century

9. A key focus in the past year was the stepping up of efforts to improve the organisation and capability of Audit. I believe that only by continuously updating our knowledge and upgrading our capability can we meet the challenges facing Audit in the 21st century. With effect from 1 September 2005, the structure of the Commission was revamped to facilitate the accomplishment of our mission more effectively and efficiently. The comprehensive revision of the Audit Manual has been completed. Another important initiative, namely the merger of the Auditor and Examiner grades, is underway. I also encouraged all staff to take part in training courses and development programmes. All these help ensure that Audit is a learning organisation, which is able to keep pace with the development of Hong Kong as a world-class city. More details about our work in these areas are set out in Chapters 2 to 4.

Looking ahead

10. I am impressed by the integrity, objectivity and professionalism that all staff of the Commission display in their work. I would like to put on record my appreciation of their efforts in delivering quality services in both regularity and VFM audits. I am grateful too for the Legislative Council and the public's response to our work over the past year.

11. I would also like to acknowledge with gratitude the full cooperation rendered by the bureaux and departments audited, and their receptiveness to my audit observations and recommendations. Although our value for money audits often reveal room for improvement in the operations of bureaux and departments audited, this does not necessarily mean that these bureaux and departments have not tried their best to improve their performance in the past years. Hong Kong people's expectations of their Government are always very high. The Audit Commission is determined to meet this challenge and strive for excellence in the provision of independent public sector audit services through commitment to professionalism and innovation.

Benjamin Tang
Director of Audit
May 2006



Mr Benjamin Tang
Director of Audit

CHAPTER 1: GOVERNMENT AUDIT IN HONG KONG

The Basic Law and the establishment of the Audit Commission

1.1 Since China's resumption of the exercise of sovereignty over Hong Kong on 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. Consequently, 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 predominately 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 any VFM audit report of the Director laid on the table of LegCo. The task of the PAC is to ensure that the funds provided by LegCo through the Appropriation Ordinance have been spent in the way intended. 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 are 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 paper 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 the 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 and grade structures of the Audit Commission

1.12 In 2004, Audit conducted comprehensive reviews of its organisation structure and of its grade structure, since both of them had remained unchanged for many years. Upon completion of the reviews in late 2004, Audit decided to implement two key initiatives to improve its organisation and grade structures, namely the reorganisation of the Commission (see paras. 1.13 to 1.16) and the merger of the Auditor and Examiner grades (see paras. 1.17 to 1.19).

Reorganisation of the Audit Commission

1.13 A reorganisation of the Commission was implemented on 1 September 2005. Before the reorganisation, each of the five Divisions was responsible for performing both regularity audit and VFM audit for a set of government policy areas. In addition to regularity and VFM audit work, the then Headquarters Administration Division was also responsible for departmental administration, technical and special duties, computer audit, the Director of Audit's report production work, and other support services. The

reorganisation aimed at setting up new specialised Divisions, each responsible for only one core business (i.e. regularity audit, VFM audit, or corporate services).

1.14 In devising the reorganisation plan, Audit followed the guiding principle that the new organisation structure had to help build up staff expertise in the respective audit areas, and enhance efficiency and productivity of work. After the reorganisation, the above-mentioned five Divisions were replaced by six new specialised Divisions, namely one Corporate Services Division, one Regularity Audit Division, and four VFM Audit Divisions.

1.15 Each of the six new Divisions is specialised in one core business: 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.

1.16 Both the Commission's staff and management can reap the benefits of having specialised Divisions. For the staff, specialisation of work helps them better focus their efforts and develop their expertise in the respective audit areas. For the management, with more specialisation and increased professionalism, the new organisation structure enables Audit to better meet the challenges ahead.

Merger of the Auditor and Examiner grades

1.17 As at 1 April 2005, Audit had an establishment of 185 posts. Excluding the Director of Audit, there were 57 posts (31%) in the Auditor grade, 88 posts (48%) in the Examiner grade and 39 posts (21%) in the Executive, Clerical and other supporting grades. In the review of its grade structure, Audit conducted research on grade structures of major overseas national audit offices and other professional departments in the Hong Kong civil service. A working group chaired by Mr Leung Moon Tong, Assistant Director of Audit, was formed for the review of grade structure. Representatives of the two Staff Associations were co-opted as members of the working group. 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.

1.18 In devising the merger proposal, two guiding principles were followed: cost neutrality (i.e. maintaining the same staff cost) and flexibility (for the management to conduct, if necessary, direct recruitment of staff with specialised knowledge and experience at the professional level from the private sector). The proposal formulated by the working group was endorsed at a Directorate Meeting. The existing and proposed grade structures 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

1.19 Feedback from the Auditor and the Examiner grade staff revealed that they supported the merger proposal. The working group then finalised departmental recommendations having regard to views from grade members. The merger proposal has now been submitted to the Civil Service Bureau for its consideration. The current indication is that the merger will not be implemented before 2007. The management of the Commission will monitor the progress.

Looking ahead

1.20 Over some one and a half centuries, Audit has evolved from a small colonial audit unit to a well administered and efficient audit office, providing a full range of quality audit services. Today, Audit functions independently and plays a vital role in the public accountability system in the HKSAR. The work of Audit is highly regarded by the Legislature, the Administration, the media and the general public. Audit is proud of its history and achievements in the past and will continue to build on this foundation to realise its corporate vision of “*excellence in public sector auditing*”.

CHAPTER 2: REGULARITY AUDIT

Introduction

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

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

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

2.3 The Director of Audit examines and audits the financial statements of the GRA and seven funds in accordance with the Audit Ordinance (see para. 2.2) and the Audit Commission auditing standards which are adopted as a framework for the proper conduct of public-sector audits. These auditing standards are, in all relevant and material respects, in line with those issued by the International Organisation of Supreme Audit Institutions and the Hong Kong Institute of Certified Public Accountants.

2.4 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 in the planning and conduct of regularity audit. It puts emphasis 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. Reliance for detailed checks on the regularity of the accounts is placed largely on the systems of internal control operated by individual 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 review 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 2005-06

2.7 On 26 October 2005, Mr. Benjamin Tang, the Director of Audit, submitted the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2005 to the President of LegCo.

2.8 In 2005-06, a total of 77 accounts were audited and certified, i.e. the GRA and the eight funds mentioned in paragraph 2.2, five Trading Funds, the Exchange Fund, the Hong Kong Housing Authority, and 61 other funds. Appendix A is a list of these 77 accounts. The resources deployed to regularity audits represented 33% of Audit's available resources. The amount involved constituted only a very small percentage (i.e. 0.016%) of the Government's total expenditure.

Meeting increasing workload with less resources

2.9 In the past few years, in order to eliminate the Government's fiscal deficits, departments were required to reduce their expenditure and achieve significant savings. Audit's actual expenditure has been reduced from \$129.7 million in 2002-03 to \$110.8 million in 2005-06. The Commission has to try its best to work with less resource while ensuring that essential services are not affected.

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

- (a) ***Widening expectation gap.*** In overseas countries, a number of high-profile corporate failures and frauds (e.g. "Enron" case in the USA) in recent years have widened the expectation gap as to how far the auditors' role 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) ***Additional and complex workload.*** Audit has to cope with additional and complex workload from the Government's adoption of accrual accounting (see paras. 2.11 to 2.13) and the implementation of a new Government Financial Management Information System (GFMIS — see paras. 2.14 and 2.15).

Implementation of accrual reporting in the Government

2.11 The financial statements of the GRA and the eight funds (see para. 2.2) are prepared on the conventional cash basis, which recognises transactions only at the time when cash is received or paid. In 1999, Audit conducted a VFM audit review on the financial reporting framework of the Government, which was reported in the [Director of Audit's Report No. 33 of October 1999](#). Audit recommended that the Government should expedite action on deciding whether or not to adopt accrual accounting, which recognises transactions at the time when they occur.

2.12 In 2001, the Financial Secretary announced in the 2001-02 Budget Speech that starting with the financial year for 2002-03 the Government would publish 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.

2.13 The [Government's accrual-based Consolidated Statement of Financial Position and Consolidated Statement of Financial Performance for 2004-05](#) reported a number of assets and liabilities, e.g. investments in government business enterprises (\$187 billion), fixed assets (\$288 billion), pension liabilities (\$333 billion) and provision for untaken leave (\$19 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 with 2004-05. The Government's adoption of accrual accounting will have wide ramifications on our regularity audit work.

Implementation of the GFMIS

2.14 In June 2003, the Treasury commenced a project to implement a new computer system 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, web-based accounting and financial management software. The GFMIS project had experienced delays and the scheduled rollout could not be delivered. The contract was terminated in May 2005. The project was put to re-tender in September 2005 and the new contract commenced in February 2006. As a result, the completion of the project has been rescheduled to 2008.

2.15 The GFMIS would involve some 80 bureaux and departments and about 5,400 users spread around different geographical locations in Hong Kong. It is a complex system, based on whole-of-government business processes, application design and integration requirements. It is a large-scale system implementation in the Government, facing a wide range of requirements and expectations of many different stakeholders. The Government's implementation of the GFMIS has a significant impact on our regularity audit. We need to continue keeping in view the development and implementation schedule of this large-scale IT project so as to properly plan our audit work.

Promulgation of new Audit Manual

2.16 Audit has all along been keeping its audit methodology under review, with incremental changes being made from time to time to align its audit methodology with best practices of the profession and to improve the efficiency and cost-effectiveness of its audit work. In 2004, Audit commenced a comprehensive revision of its Audit Manual. The new Audit Manual will comprise three separate volumes, namely Volume I — General Audit Manual (GAM), Volume II — Regularity Audit Manual (RAM) and Volume III — Value for Money Audit Manual (VAM).

2.17 The GAM and the VAM were promulgated in May and June 2005 respectively. The draft RAM was completed in August 2005, and is now subject to extensive testing for one audit cycle before it can be formally approved for issue. It is expected that the RAM will be promulgated after completion of the testing in late 2006.

Looking ahead

2.18 Audit is facing a number of major challenges in its regularity audit work, including the reduction in resources, the widening expectation gap on the role of auditors, the great changes brought about by the implementation of accrual reporting in the Government, and the replacement of the existing computerised ledger accounting system by the new GFMIS. Audit would do its utmost to meet these challenges by improving the quality, efficiency and cost-effectiveness of its regularity audit work. For this purpose, we have been implementing a number of major initiatives, including the promulgation of the new Audit Manual (see paras. 2.16 and 2.17), the reorganisation of the Commission (see paras. 1.13 to 1.16), and the proposed merger of the Auditor and Examiner grades (see paras. 1.17 to 1.19).

2.19 We are pleased that most of the above tasks were well underway in 2005-06. However, a lot of work remains to be done in the near future. It is expected that the Commission will promulgate the new RAM by the end of 2006. We believe that this will help the Regularity Audit Division provide quality audit service in a more efficient and effective way.

CHAPTER 3: VALUE FOR MONEY AUDIT

Introduction

3.1 The aim of VFM audits is to provide LegCo with independent information, advice and assurance about the economy, efficiency and effectiveness 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.

3.2 The terms “economy”, “efficiency” and “effectiveness” 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.

3.3 VFM audit is 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. 1.10 and 1.11). Like regularity audit, VFM audit is conducted in accordance with the Audit Commission auditing standards (see para. 2.3) and a programme of work determined annually by the Director of Audit (see para. 2.4). A structured approach is adopted for conducting VFM audit, which consists of five main stages: VFM audit strategic planning, preliminary study, full investigation, reporting results of VFM audit, and publication and follow-up of VFM audit report stages.

3.4 In conducting VFM audit under the VFM Audit Guidelines, the Director of Audit may be 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

3.5 In 2005-06, two Director of Audit’s Reports on the results of VFM audits were submitted to the President of LegCo in April (Report No. 44) and October (Report No. 45), covering a total of 17 audit subjects. The [Director of Audit’s Report No. 44](#) has eight subjects while the [Director of Audit’s Report No. 45](#) has nine subjects. The resources

deployed to VFM audits represented 67% of Audit's available resources. The amount involved constituted only a very small percentage (i.e. 0.032%) of the Government's total expenditure.

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

**Subjects reported in the Director of Audit's Report Nos. 44 and 45
and selected for PAC hearing**

Subject	Report No.	Chapter No.
Diesel vehicle emission controls	44	2
The Postal Mechanisation System at the Air Mail Centre	44	7
Development of a site at Sai Wan Ho	45	3

The PAC examined intensively a large number of issues raised in the audit reports. The audit conclusions and recommendations were generally accepted by the PAC and the Administration. Like the VFM audit reports issued in past years, these two reports were well received by the media and the public. Some of the audit subjects hit the headlines of newspapers. In general, the comments received from the media and the public were very favourable. The above three audit subjects are briefly described in paragraphs 3.7 to 3.17.

Diesel vehicle emission controls

3.7 **Background.** Diesel vehicles account for about 90% each of respirable suspended particulates (RSPs) and nitrogen oxides emitted by all vehicles throughout the territory. In 1987, the Government established 14 air quality objectives (AQOs) to provide a framework for air quality management. These AQOs spell out the maximum safe levels of major air pollutants in the ambient air, including those for RSPs and nitrogen dioxide, which is one form of nitrogen oxides. In 1999, the Chief Executive announced in his Policy Address that the Government would allocate \$1.4 billion to implement a comprehensive programme to reduce 80% of RSP emissions and 30% of nitrogen oxides emissions from vehicles by 2005. However, the annual averages of RSPs and nitrogen dioxide at roadside level in 2004 still exceeded the respective maximum safe levels as laid down in the AQOs by 45% and 26%.

3.8 **Audit review.** The audit review examined whether there was room for further reducing the concentration of RSPs and nitrogen dioxide at roadside level. It focused on three areas, namely the diesel vehicle inspection and maintenance programme (covering the smoke test of the Transport Department (TD)), the smoky vehicle control programme (operated by the Environmental Protection Department (EPD)) and the use of liquefied petroleum gas.

3.9 In April 2005, the Director of Audit's Report (Report No. 44) was tabled in LegCo. In May 2005, in addition to holding a public hearing, the PAC visited the TD's vehicle examination centre, and the EPD's designated vehicle emission testing centre at Kowloon Bay to observe the smoke test procedures.

3.10 The audit recommendations were generally accepted by the PAC and the Administration. Two examples of improvements recommended are shown below:

- (a) ***Diesel vehicle inspection and maintenance programme.*** The TD adopted a smoke opacity standard of 60 Hartridge Smoke Units (HSUs), which was set in the 1970s. The EPD adopted a standard of 50 HSUs for its smoky vehicle control programme (see para 3.10 (b)). In 1992, the EPD proposed to tighten the TD's standard of 60 HSUs to 50 HSUs. The Motor Trade Association of Hong Kong commented that vehicles manufactured in 1990 and thereafter, if properly maintained, should have no difficulties in complying with the 50-HSU standard throughout their useful life. Audit recommended that the Commissioner for Transport should tighten the smoke opacity standard. The Commissioner said that the TD would work together with the EDP on this issue; and
- (b) ***Smoky vehicle control programme.*** Trained spotters would spot smoky vehicles and report them to the EPD. The EPD would serve an emission testing notice on the vehicle owners, requiring them to bring their vehicles to one of its designated vehicle emission testing centres for smoke tests within 14 days. The smoke opacity standard adopted for this programme was 50 HSUs. The practice of the EPD allowed vehicle owners 14 working days to have their vehicles passed the EPD smoke test. In 2003 and 2004, all owners were allowed more than 14 days to take their vehicles to the centres for smoke test, and about 17% of the cases were allowed more than 14 working days to pass the test. Audit recommended that the Director of Environmental Protection should review the time allowed for smoky vehicle owners to have their vehicles passed the EPD smoke test. The Director said that as the vehicle repair and the transport trades had become more experienced with the dynamometer smoke test, the EPD would consider the feasibility of further shortening the 14-working-day period.

The Postal Mechanisation System at the Air Mail Centre

3.11 ***Background.*** In July 1993, the Post Office appointed a Consultant to provide assistance in the design, procurement, testing and commissioning of the Postal Mechanisation System (POMS) at the Air Mail Centre (AMC). In April 1995, the Contract for the supply and installation of the POMS was signed. The POMS includes two integrated mail processors (IMPs), two packet sorting systems (Packet SSs), one parcel sorting system (Parcel SS), and a number of supporting systems. The total capital cost of the POMS is \$207.9 million. The POMS commenced operation in July 1998 concurrent with the opening of the new Hong Kong International Airport at Chek Lap Kok.

3.12 ***Audit review.*** The audit review focused on the following areas:

- (a) **Acceptance tests of the POMS.** There were three types of tests, i.e. factory acceptance tests, site acceptance tests and confidence trial. Audit found that the following tests had not been properly carried out in accordance with the terms of the Contract: both the factory acceptance tests and the site acceptance tests of the IMPs, the Packet SSs and the Parcel SS, and the confidence trial of the IMPs;
- (b) **Performance of the POMS.** Audit found that there were deficiencies in the performance of the IMPs, the Packet SSs and the Parcel SS. For example, during the period from April 1999 to September 2004: the read rate of the IMPs for inward mail ranged from 28% to 40% while the minimum rate specified in the Contract was 76%, and the read rate for outward mail ranged from 37% to 49% while the minimum rate specified in the Contract was 71%;
- (c) **Utilisation of the POMS.** According to the design of the POMS, almost all mail processed at the AMC would be sorted by the POMS. Audit found that during the years from 1999-2000 to 2003-04, the utilisation was low. For example, the percentage of letters sorted by the IMPs ranged from 47% to 66%, and each IMP operated, on average, 3.9 hours to 4.8 hours per day in sorting letters; and
- (d) **Payments for the POMS.** Audit found that the Post Office had paid the Contractor \$129.8 million for which the discounts allowed in the Contract had not been deducted. Audit requested the Post Office to review all its payments to the Contractor. The Post Office, after checking its payment records, found that there were overpayments of \$7.1 million.

3.13 In May 2005, the PAC held three public hearings. The audit recommendations were generally accepted by the PAC and the Administration.

3.14 One important feature of this review is that it led to the recovery of overpayments from the Contractor. The Post Office recovered \$8 million (i.e. the overpayments and the accrued interest) from the Contractor.

Development of a site at Sai Wan Ho

3.15 **Background.** In January 2001, a site at Sai Wan Ho, Hong Kong (the Site), with an area of about 12,200 square metres (m²), was sold by tender to a developer (the Developer) at a premium of \$2,430 million. The lease conditions of the Site required the Developer to provide, on a reimbursement basis, the following Government Accommodation: a marine police operational area and a public transport terminus (PTT).

3.16 **Audit review.** The audit review focused on the following areas: pre-tender enquiries on gross floor area (GFA) calculation, development intensity of the Site, provision of Government Accommodation, site classification, granting of exemption areas, and granting of bonus areas. The audit revealed that there was scope for improvement in administering land grant for large scale development requiring the provision of government accommodation. The audit recommendations were generally accepted by the PAC and the Administration. Two examples of improvements are given below:

- (a) ***PTTs be included in GFA calculation.*** In October 2001, the Building Authority decided that the PTT should be excluded from the GFA calculation. As stated in the PAC report, the Administration agreed in April 2005 that the planning intention was that PTTs should be included in GFA calculation unless otherwise specified in the relevant town plan or any specific planning approval for a site, and the Building Authority would follow the planning intention in exercising his discretion in granting GFA exemption for PTTs; and
 - (b) ***The Building Authority's discretionary power.*** The PAC strongly urged the Building Authority to ensure that, when exercising his discretionary power, he would include in his consideration of an application the factors listed in any applicable Practice Note issued by the Buildings Department. The Administration had set up an independent committee of inquiry to examine how and under what circumstances the Building Authority exercised his discretionary powers in this particular development, and whether such powers were exercised properly. The committee submitted its report to the Chief Executive in April 2006.
- 3.17 The following are some special features of this audit review:
- (a) ***Six PAC public hearings held.*** The PAC held one hearing on 28 November 2005 and five hearings in December 2005;
 - (b) ***Government official summonsed to attend before the PAC to give evidence.*** The former Director of Buildings was invited to attend the PAC hearing on 28 November 2005, because he was the Building Authority during part of the period covered by the audit report. However, he refused to answer questions put to him by the PAC on the ground that he had filed an application to the court for leave to apply for a Judicial Review (JR) on the audit report. The PAC exercised its power under the Legislative Council (Powers and Privileges) Ordinance to summons him to appear before it to give evidence and to examine him on oath. A summons was served on him on 29 November 2005; and
 - (c) ***The first JR encountered by Audit.*** The JR on this subject is the first JR case we have ever encountered. On 24 May 2006, the Honourable Mr Justice Hartmann announced in open court a consent order that the former Director of Buildings has leave to wholly discontinue the JR proceedings with no order as to costs.

Looking ahead

3.18 Similar to regularity audit work (see para. 2.18), our VFM audit work is also facing the challenges of the reduction of resources and the widening expectation gap on the role of auditors. Despite the reduction of resources available for VFM audit, there has been growing public expectation for Audit to conduct more complex and high-impact VFM studies.

3.19 To meet these challenges, Audit has promulgated the Value for Money Audit Manual (see paras. 2.16 and 2.17) to provide more guidance to its staff. Audit has also undergone a major reorganisation with the establishment of specialised Divisions to handle regularity audit, VFM audit and corporate services separately (see paras. 1.13 to 1.16).

CHAPTER 4: CORPORATE SERVICES

Introduction

4.1 Since the reorganisation of the Audit Commission in September 2005, the Corporate Services Division took over the functions of the then Headquarters Administration Division in 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, LAN administration, IT support, and other support services.

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

The year under review

4.3 For those involved in the provision of corporate services, the year 2005 was an eventful year. It was also a busy but fruitful year. We stepped up efforts to improve our organisation and capability. More training and public relations work was conducted. The key initiatives, which we commenced in the year, would have far-reaching effects on our work. Our corporate services work included:

- (a) The Director of Audit's Report production work — Reports No. 44 and 45, and Report on the Accounts of the Government for the year ended 31 March 2005;
- (b) Support services:
 - (i) Corporate Plan;
 - (ii) Environmental Report;
 - (iii) Media research; and
 - (iv) IT support;
- (c) External and press relations:
 - (i) Public relations work;
 - (ii) Speeches and presentations by the Director of Audit;
 - (iii) Participation in the 2005 Performance Auditing for the Public Sector Conference;
 - (iv) Official duty visit to the Commission of Audit of Macao; and

- (v) Receiving visitors from Mainland China and overseas;
- (d) Training and development:
 - (i) Local training and development programmes; and
- (e) Key initiatives:
 - (i) Promulgation of the new Audit Manual;
 - (ii) Reorganisation of the Audit Commission; and
 - (iii) Merger of the Auditor and Examiner grades.

***The Director of Audit's Report production work
— Reports No. 44 and 45, and Report on the Accounts of the Government***

4.4 The Director of Audit's Reports No. 44 and 45 were issued in March and October 2005. They include the results of VFM audits completed during the period October 2004 to February 2005 and the period March to September 2005 respectively. Together with Report No. 45, the Report of the Director of Audit on the Accounts of the Government for the year ended 31 March 2005 was also issued in October 2005.

4.5 Report No. 44 was tabled in LegCo on 20 April 2005. It contains eight subjects, two of which were considered by the PAC during their public hearings held in May 2005. The Report on the Accounts of the Government for the year ended 31 March 2005 and Report No. 45 were tabled in LegCo on 16 November 2005. Report No. 45 contains nine subjects, one of which was considered by the PAC during their public hearings held in November to December 2005. The audit recommendations were generally accepted by the Administration. 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, which covers the three-year period 2004-05 to 2006-07 was issued in June 2004. It is the key document to communicate Audit'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 Programme of Work (POW). The Business Plan 2005-06, which was issued in June 2005, set out the broad directions for conducting our core businesses and the key initiatives planned for the audit year September 2005 to August 2006. 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 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 2005 was the 5th report we issued. The environmental policy of the Audit Commission is that it 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 Government's environmental improvement policies.

4.10 The Environmental Report 2005 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 period 2005-06 to 2006-07 was issued in June 2005. The IT Plan:

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

4.13 In 2005, the Audit Commission's Internet Homepage was revamped. Actions were taken to redevelop the Commission's website to align with the "Common Look and Feel Standards for Government websites" and to incorporate enhanced features and functions to make it more user-friendly.

Public relations work

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

- (a) the CPA Australia Hong Kong China Division held its Cocktail Reception in Conrad Hong Kong on 24 June 2005. The Director attended the function and exchanged views with the CPA Australia's Deputy President Mr Paul Meiklejohn and Chief Executive Mr Greg Larsen;



The Cocktail Reception of the CPA Australia on 24 June 2005

- (b) on 30 June 2005, Mr Joseph Ying, Assistant Director of Audit, and Mr Wong Ying Tao, Principal Auditor, attended a lunch meeting with Mr Andy Wynne, Head of Public Sector Technical Issues and other senior staff of the Association of Chartered Certified Accountants (ACCA) Hong Kong;
- (c) the Hong Kong Institute of Certified Public Accountants (HKICPA) held its Annual Dinner in the Four Seasons Grand Ballroom on 14 October 2005. The Director attended the dinner and exchanged views with professional accountants on matters of mutual interest;



The HKICPA Annual Dinner on 14 October 2005

- (d) the Canadian Certified General Accountants Association of Hong Kong (CGA) held its annual dinner at the Hong Kong Bankers Club on 21 November 2005. The Director attended the dinner and exchanged views with professional accountants;



The CGA Hong Kong Annual Dinner 2005 on 21 November 2005

- (e) the Director officiated the 17th Hong Kong Print Awards — Awards Presentation Ceremony held on 5 December 2005;
- (f) the Director attended the Inaugural Session of the Hong Kong Ministerial Conference of the World Trade Organisation at the Grand Hall of Hong Kong Convention and Exhibition Centre held on 13 December 2005;
- (g) Mr Joseph Ying, Assistant Director of Audit represented the Commission to meet Sir David Tweedie, Chairman of the International Accounting Standards Board on 13 February 2006 to discuss the international development on financial reporting;
- (h) the Director attended the Spring Cocktail Reception of the HKICPA held in the JW Marriott Hotel Ballroom on 16 February 2006; and



The HKICPA Spring Reception on 16 February 2006

- (i) the ACCA Hong Kong held its Spring Dinner on 24 February 2006 at the Hong Kong Bankers Club. Mr Wong Ying Tao, Principal Auditor, represented the Commission to attend the dinner and share ideas and knowledge with professional accountants.

Speeches and presentations by the Director of Audit

4.15 In the period April 2005 to March 2006, the Director delivered a number of speeches and presentations on subjects related to our work to various organisations. The following are the key events:

- (a) speech by the Director of Audit on the topic “Enhancing Governance and Efficiency: How the Government Auditor Does It” to the Academy of Management Consultancy on 29 September 2005; and
- (b) speech by the Director of Audit on “The work of the Audit Commission” on 24 November 2005 to members of Rotary Club of Hong Kong North.

Participation in the 2005 Performance Auditing for the Public Sector Conference

4.16 The Director of Audit attended the 2005 Performance Auditing for the Public Sector Conference in Singapore organised by the Asia Business Forum on 5 May 2005 and 6 May 2005. The conference provided a forum for the Director to share knowledge and experience with other participants on the latest developments in performance auditing for the public sector.

4.17 The conference also covered topics like best practices of performance measurements, strategic internal auditing planning, risk management to help promote good corporate governance, and fraud detection and prevention.

Official duty visit to the Commission of Audit of Macao

4.18 In May 2005, Ms Fatima Choi, the Commissioner of Audit of Macao, invited our office to make a presentation on value for money audit to her staff and to meet Mr Edmund Ho Hau Wah, the Chief Executive, Macao Special Administrative Region. On 10 June 2005, the Director of Audit, together with Messrs Poon Sui Cheung and Wong Ying Tao, Principal Auditors, and Mr John Chu, Senior Auditor, visited the Commission of Audit of Macao and made a presentation on value for money audit. The delegates of the Audit Commission also met Mr Edmund Ho Hau Wah, the Chief Executive of the Macao Special Administrative Region.

4.19 The visit to the Commission of Audit of Macao had facilitated the sharing of professional knowledge and experience in public sector auditing between the two Special Administrative Regions.



Delegates of the Audit Commission met Mr Edmund Ho Hau Wah, the Chief Executive of the Macao Special Administrative Region

Receiving visitors from Mainland China and overseas

4.20 In the period April 2005 to March 2006, Audit held a number of seminars for visitors. These visits strengthened our linkage with our Mainland China and overseas counterparts. The key events are as follows:

- (a) Mr Liu Jiayi, Deputy Auditor General of the National Audit Office of the People Republic of China (CNAO), together with several senior officials visited the Audit Commission on 20 May 2005 and gave a talk on the work of CNAO to our staff;



Mr Liu Jiayi, Deputy Auditor General of the CNAO (4th from the right) visited the Audit Commission on 20 May 2005

- (b) Mr Denzil Bourne, Senior Director, Corporate Governance and Business Support of the Australian National Audit Office (ANAO) visited the Commission on 17 June 2005 and conducted a talk to our staff about the role, organisation and work of the ANAO;



Mr Denzil Bourne from the ANAO visited the Audit Commission

- (c) on 24 June 2005, at the invitation of the Legislative Council Secretariat, we held a seminar on the topic “The work of Audit Commission” in the LegCo Building for a delegation from the Finance Bureau of Jiangsu Province. Our staff gave the delegation a well-received presentation on Audit’s work. A very constructive exchange of views on various aspects of government auditing was made between the visitors and our staff;
- (d) Mr Boonrawd Bosereewong, State Audit Commissioner of the Office of the Auditor General of Thailand, together with several senior officials visited the Audit Commission on 15 August 2005;
- (e) on 31 August 2005, a study tour on audit management from the Audit Bureau of Jiangsu Province visited our office. Our staff gave them a presentation on Audit’s work. A very constructive exchange of views on various aspects of government auditing was made between the visitors and our staff; and
- (f) Mr Asif Ali, the Auditor General of Bangladesh and his colleagues visited the Audit Commission on 2 September 2005. An exchange of views and ideas of government auditing was made between the visitors and our senior staff.



Mr Asif Ali, the Auditor General of Bangladesh (4th from the left) and his colleagues visited the Audit Commission on 2 September 2005

Local training and development programmes

4.21 ***Leadership in Action Programme.*** In 2005, Mr Philip Lau, Principal Auditor and Mr Pang Kwok Sing, Senior Auditor, attended the Leadership in Action (LIA) Programme organised by the Civil Service Training and Development Institute. This three-week training programme aimed to help participants broaden their strategic horizons and advance their understanding of issues and challenges facing the public sector.

4.22 ***The New Political Order in Hong Kong.*** We organised a seminar “The New Political Order in Hong Kong” on 4 November 2005. The objective of the seminar was to broaden the vision and outlook of our staff in Hong Kong’s current political environment. The seminar was conducted by Dr Lo Chi Kin, JP, a renowned and respected public affairs and communications expert. Over 60 colleagues attended the seminar. The seminar provided very informative analyses and insightful observations of the new political environment in Hong Kong.



Dr Lo Chi Kin, JP

4.23 ***Forensic Accounting and Fraud Investigation.*** A seminar “Forensic Accounting and Fraud Investigation” was held on 6 January 2006 in our Conference Room. The objective of the seminar was to give an overview of Forensic Accounting and the role of Forensic Accountant. The seminar was conducted by Ms Annie Chan who leads the Fraud Investigation and Dispute Services of Ernst & Young for Hong Kong and China. Over 80 colleagues attended the seminar which provided very informative and insightful analyses of the current practice on fraud prevention and investigation.



Mr Benjamin Tang, the Director of Audit, presented a souvenir to Ms Annie Chan

4.24 *The Auditor's Role in Public Service.* On 24 February 2006, Miss Amy Yung, a Council Member of the HKICPA and a Member of the Islands District Council, shared with our colleagues her views on the auditor's role in public service. Miss Yung talked about the challenges faced by auditors in the private sector, and her experience in public service including her service for the HKICPA and Islands District Council. She also enlightened us with her high expectations of the Audit Commission.



Mr Benjamin Tang, the Director of Audit, presented a souvenir to Miss Amy Yung

Key initiatives

4.25 In 2005-06, we were busy working on a number of key initiatives, including the promulgation of the new Audit Manual, the reorganisation of the Audit Commission, and the merger of the Auditor and Examiner grades.

4.26 *Promulgation of the new Audit Manual.* In 2005, Audit completed the comprehensive review of the Audit Manual. Volume I – General Audit Manual and Volume III – Value for Money Audit Manual were promulgated in May and June 2005 respectively. The draft Volume II – Regularity Audit Manual is now being extensively tested for one audit cycle before it is formally approved for issue. The testing is expected

to be completed in late 2006.

4.27 ***Reorganisation of the Audit Commission.*** With a view to moving towards more specialisation of work and to conform to international trend, the Audit Commission was reorganised with effect from 1 September 2005. With more specialisation and increased professionalism, the new organisation structure enables the Commission to achieve its mission more efficiently and effectively.

4.28 ***Merger of the Auditor and Examiner grades.*** The merger proposal has been submitted to the Civil Service Bureau (CSB) for its consideration. It is not expected that the merger will be implemented before 2007. The Corporate Services Division will closely liaise with the CSB and keep in view the progress of the matter.

Looking ahead

4.29 In 2005-06, we made great efforts to step up our public relations work, improve our organisation and grade structures, 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 upgrade our capacity, with a view to meeting the challenges facing us in the 21st century.

The 77 accounts certified in 2005-06

Government Funds

- (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) Education Development Fund
- (28) Education Scholarships Fund
- (29) Emergency Relief Fund
- (30) Environment and Conservation Fund
- (31) Exchange Fund
- (32) Fire Services Department Welfare Fund
- (33) Fisheries Development Loan Fund
- (34) General Chinese Charities Fund
- (35) Government Flying Service Welfare Fund
- (36) Grant Schools Provident Fund
- (37) Grantham Scholarships Fund
- (38) High Court Suitors' Funds
- (39) Hong Kong Housing Authority

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

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

	Unit	Target	2003-04 (Actual)	2004-05 (Revised Estimate)	2005-06 (Plan)
Regularity Audit					
Targets					
Number of Director of Audit's Reports submitted to the Legislative Council	Report	1	1	1	1
Time required to certify the statements of accounts of the Government after the end of each financial year	Month	7	7	7	7
Indicators					
Number of accounts certified	Account		75	77	77
Number of man-hours spent	Man-hour		97 837	98 906	101 699
Provision for regularity audit as % of total government spending	%		0.015	0.015	0.015
Value for Money Audit					
Targets					
Number of Director of Audit's Reports submitted to the Legislative Council	Report	2	2	2	2
Number of value for money audit reports issued to audited bodies	Report	17	19	19	17
Indicators					
Number of man-hours spent	Man-hour		172 579	157 370	153 390
Provision for value for money audit as % of total government spending	%		0.035	0.033	0.031

Calendar of key events
(1 April 2005 to 31 March 2006)

Date	Event
20 April 2005	The Director of Audit's Report No. 44 was tabled in the Legislative Council.
27 April 2005	Audit held a seminar for a delegation from the Foreign Trade Bureau of Shandong Province.
5 – 6 May 2005	The Director of Audit attended the 2005 Performance Auditing for the Public Sector Conference organised by the Asia Business Forum in Singapore.
8 – 11 May 2005	Mr Leung Moon Tong, Assistant Director of Audit, attended the 2005 Performance Auditing for the Public Sector Conference organised by the Asia Business Forum in Kuala Lumpur, Malaysia.
20 May 2005	Mr Liu Jiayi, Deputy Auditor General of the National Audit Office of the People Republic of China (CNAO), together with several senior officials visited the Audit Commission and gave a talk on the work of CNAO to our staff.
3 June 2005	Mr Joseph Wong, the Secretary for the Civil Service, visited the Commission and presented the 30 Years' Meritorious Service Certificate and a commemorative gold pin to the Director.
10 June 2005	The Director of Audit together with Messrs Poon Sui Cheung and Wong Ying Tao, Principal Auditors, and Mr John Chu, Senior Auditor, visited the Commission of Audit of Macao and made a presentation on value for money audit. The delegates of the Audit Commission also met Mr Edmund Ho Hau Wah, the Chief Executive of the Macao Special Administrative Region.
15 June 2005	The Director of Audit attended the annual dinner of The Certified Management Accountants of Canada, Hong Kong Branch at The Hong Kong Bankers Club.
17 June 2005	Mr Denzil Bourne, Senior Director, Corporate Governance and Business Support of the Australian National Audit Office conducted a talk to our staff about the role, organisation and work of the Australian National Audit Office.
24 June 2005	The Director of Audit attended the CPA Australia Hong Kong China Division's Cocktail Reception and exchanged views with the CPA Australia's Deputy President Mr Paul Meiklejohn and Chief Executive Mr Greg Larsen.
24 June 2005	A seminar was held on the topic "The work of Audit Commission" in the LegCo Building for a delegation from the Finance Bureau of Jiangsu Province.
30 June 2005	Mr Joseph Ying, Assistant Director of Audit, and Mr Wong Ying Tao, Principal Auditor, attended a lunch meeting with Mr Andy Wynne, Head of Public Sector Technical Issues and other senior staff of the Association of Chartered Certified Accountants Hong Kong.

Appendix D

5 August 2005	A delegation from the Nanjing Audit University visited our office and a talk was delivered to them.
15 August 2005	Mr Boonrawd Bosereewong, State Audit Commissioner of the Office of the Auditor General of Thailand, together with several senior officials visited the Audit Commission.
31 August 2005	Audit held a seminar for a delegation from the Jiangsu Audit Bureau.
2 September 2005	Mr. Asif Ali, the Comptroller and Auditor General of Bangladesh, together with several senior officials from the Government of the People's Republic of Bangladesh visited the Audit Commission.
29 September 2005	The Director of Audit gave a speech on the topic "Enhancing Governance and Efficiency: How the Government Auditor Does it" in a breakfast meeting of the Academy of Management Consultancy.
14 October 2005	The Director of Audit attended the Annual Dinner of the Hong Kong Institute of Certified Public Accountants.
4 November 2005	Dr Lo Chi Kin, JP, conducted a seminar on the new political order in Hong Kong to staff of the Commission.
16 November 2005	The Director of Audit's Report No. 45 was tabled in the Legislative Council.
21 November 2005	The Director of Audit attended the Annual Dinner of the Canadian Certified General Accountants Association of Hong Kong.
24 November 2005	The Director of Audit made a speech on "The Work of the Audit Commission" to members of Rotary Club of Hong Kong North.
5 December 2005	The Director of Audit officiated the 17 th Hong Kong Print Awards — Awards Presentation Ceremony.
13 December 2005	The Director of Audit attended the Inaugural Session of the Hong Kong Ministerial Conference of the World Trade Organisation at the Grand Hall of Hong Kong Convention and Exhibition Centre.
6 January 2006	Ms Annie Chan, Partner, Fraud Investigation and Dispute Services, Ernst & Young conducted a seminar on "Forensic Accounting and Fraud Investigation" to staff of the Commission.
13 February 2006	Mr Joseph Ying, Assistant Director of Audit, attended a meeting with Sir David Tweedie, Chairman of the International Accounting Standards Board to discuss important financial reporting issues encountered in Hong Kong.
16 February 2006	The Director of Audit attended the Spring Cocktail Reception of the Hong Kong Institute of Certified Public Accountants.
17 February 2006	Messrs Lee Sik Yum and John Chu, Senior Auditors, attended a briefing session held by the Commission of Audit of Macao. During the briefing session, our staff gave a presentation of the value for money audit work of the Audit Commission.
24 February 2006	Miss Amy Yung, a Council Member of the Hong Kong Institute of Certified Public Accountants gave a talk to staff of the Commission about the challenges faced by auditors in the private sector, and her experience in public service.
24 February 2006	Mr Wong Ying Tao, Principal Auditor, attended the Spring Dinner of the Association of Chartered Certified Accountants Hong Kong.