

**HONG KONG SPECIAL ADMINISTRATIVE REGION**

**Audit Commission**

**Annual Report 2006-07**

**Audit Commission  
Hong Kong  
May 2007**



# **AUDIT COMMISSION**

## **ANNUAL REPORT 2006-07**

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## **DIRECTOR'S MESSAGE**

I have pleasure in presenting the Annual Report of the Audit Commission for 2006-07. This Annual Report covers the period from 1 April 2006 to 31 March 2007.

### **The year under review**

2. It is our mission to help the Government enhance public sector performance and accountability. We play a positive and constructive role in conducting our audit work. In all our recommendations, we aim to help the audited bodies improve their management and increase cost effectiveness. Our aim is to ensure that the audited bodies get maximum value for their money spent. In the past year, we issued a number of in-depth value for money (VFM) audit reports, notably the reviews of the financial control and resource management of Radio Television Hong Kong, management of outstanding medical fees and medical fee waivers, and the administration of short term tenancies. In all these reviews, we made great efforts to help the auditees identify lessons learnt. Our recommendations were generally accepted by the Administration and added value to the Government. Details about these reviews are covered in Chapter 3.

3. In addition to VFM audit, the Audit Commission conducts regularity audit to help the Government enhance governance, accountability and transparency. In 2006-07, a total of 79 accounts were audited and certified, including the General Revenue Account, the five Trading Funds, the Exchange Fund, and the Hong Kong Housing Authority. The implementation of accrual reporting is a key initiative of the Government for improving its financial accountability and transparency. We have been keeping a close watch on the development of accrual accounting in the Government, as it will have wide ramifications on our regularity audit work. We also keep in view the implementation of the new Government Financial Management Information System, which will affect the accountability and financial management processes in the Government. Chapter 2 gives more details about our regularity audit work.

4. The Audit Commission is one of the oldest government departments in Hong Kong. Owing to the skill and commitment of our staff, our work is held in high regard and draws a lot of media coverage. The Commission plays a paramount role in promoting the Government's accountability and good governance in the audited bodies. To ensure that the Audit Commission continuously progresses with new developments, and to benefit from the experience of other renowned accounting and auditing bodies, we take opportunities to share experience with other bodies in the accounting and auditing field. For instance, in April 2006, we participated in the Public Sector Reform Conference 2006 organised by the Efficiency Unit. In September 2006, we participated in the 10<sup>th</sup> Asian Organisation of Supreme Audit Institutions Assembly and the Symposium on "The Role of Audit in Promoting Government Accountability" held in Shanghai. We also received many visitors from the Mainland and overseas, including senior officials of the office of the Auditor General of Thailand. Details are set out in Chapter 4.

## The way ahead

5. A key focus in the past year was the stepping up of efforts to improve the organisation and capability of the Commission. I believe that only by continuously updating our knowledge and upgrading our capability can we meet the challenges facing the Commission in the 21<sup>st</sup> century. Apart from revamping the structure of the Commission with effect from 1 September 2005 to facilitate the accomplishment of our mission more effectively and efficiently, the Commission has been working on the merger of the Auditor and Examiner grades. The Commission also organises training courses and development programmes for various levels of staff. In the past year, two Senior Auditors attended the three-week Leadership in Action training programme organised by the Civil Service Training and Development Institute. All these help the staff broaden their strategic horizons and advance their capability of meeting challenges ahead. More details about our work in these areas are set out in Chapters 2 to 4.

6. I would like to thank all staff of the Commission for their hard work and professionalism. I would like to put on record my appreciation of their efforts in delivering quality services in both regularity and VFM audits. With their exceptional dedication, the Commission has won respect from the public as a first class audit organisation. I am grateful too for the Legislative Council and the public's positive response to our work over the past year. 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.

7. Looking to the future, we are determined to continue to strive for excellence in the provision of independent public sector audit services.

Benjamin Tang  
Director of Audit  
May 2007



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

## CHAPTER 1: ROLE OF THE AUDIT COMMISSION

### Independence

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

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

#### *The Audit Ordinance*

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

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

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

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

Government officials and senior staff of public organisations to attend public hearings to give explanation, evidence or information, or any other person to assist it in relation to such explanation, evidence or information if deemed necessary. The establishment of the PAC was an important milestone in the development of public accountability in Hong Kong.

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

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

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

## Reporting to the Legislative Council

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

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

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



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

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

## **The Government Minute**

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

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

## **Organisation of the Audit Commission**

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

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

## **Grade structure of the Audit Commission**

1.14 As at 31 March 2007, Audit had an establishment of 179 posts. There were 55 posts (31%) in the Auditor grade, 85 posts (47%) in the Examiner grade and 39 posts (22%) in the Executive, Clerical and other supporting grades. In 2004, Audit conducted a research on grade structures of major overseas national audit offices and other professional departments

in the Hong Kong civil service. As a result, it was proposed that the existing grade structure should be simplified by combining the Auditor and the Examiner grades. The benefits of the merger proposal include improving career prospect of grade members, boosting staff morale, and streamlining grade management and structure. The existing and proposed grade structures of the Audit Commission are shown below.

### Existing and proposed grade structures

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

1.15 The Auditor and the Examiner grade staff supported the merger proposal. The merger proposal has now been submitted to the Civil Service Bureau for its consideration. The management of the Commission will keep in view the progress to implement the proposal successfully.

### Looking ahead

1.16 Over the past some one hundred and sixty years, Audit has evolved from a small colonial audit unit to a well administered and efficient audit office, providing a full range of quality audit services. We have gone a long way in enhancing our services by the better use of modern audit methodology and information technology. Our success is built on the effort of our dedicated and professional staff. Today, Audit functions independently and plays a vital role in the public accountability system in the HKSAR. We will continue to perform our duties and discharge our responsibilities with pride and realise our corporate mission of “*excellence in public sector auditing*”.

## CHAPTER 2: REGULARITY AUDIT

### Introduction

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

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

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

2.3 The Director of Audit examines and audits the financial statements of the GRA and these funds in accordance with the Audit Commission auditing standards. These auditing standards are in line with those issued by the International Organisation of Supreme Audit Institutions 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 to the planning and conduct of regularity audit. It emphasises on risk assessment and focuses audit tests on areas with risk of significant errors and irregularities. It is not the intention of regularity audit to disclose each and every accounting error or financial irregularity. With the considerable volume and variety of government revenue and expenditure, this examination of accounts is of necessity carried out by means of selective test checks and in-depth reviews designed to indicate possible areas of weakness. In making risk assessment and selecting transactions for detailed checks, consideration is given to the relevant systems of internal control operated by the audited departments.

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

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

## **The year under review**

### ***Accounts certified in 2006-07***

2.7 On 26 October 2006, 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 2006 to the President of LegCo.

2.8 In 2006-07, a total of 79 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 63 other funds. Appendix A is a list of these 79 accounts. The resources deployed to regularity audits represented 29% of Audit's available resources. The amount involved constituted only a very small percentage (i.e. 0.014%) of the Government's total expenditure.

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

2.9 In the past few years, in order to eliminate the Government's fiscal deficits, departments were required to reduce their expenditure and achieve significant savings. Audit's expenditure had been reduced from \$129.7 million in 2002-03 to \$110.8 million in 2006-07. The Commission has to try its best to work with less resources while ensuring that essential services are not affected.

2.10 However, our regularity audit workload has been increasing because 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 arising from the Government's adoption of accrual accounting (see paras. 2.11 to 2.13), the implementation of a new Government Financial Management Information System (GFMIS — see paras. 2.14 to 2.16) and new auditing and accounting standards (see paras. 2.17 to 2.19).

### ***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. Transactions are recorded when moneys are received or paid, whether they relate to recurrent or capital transactions. In the VFM audit review of the financial reporting of the Government ([Director of Audit's Report No. 33 of October 1999](#)), Audit pointed out the benefits of accrual accounting for governmental financial reporting such as its facilitation of decision-making. 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 At present, the Government publishes two separate sets of annual accounts, one under the existing cash accounting convention and another on the accrual basis. The implementation of accrual reporting is a key initiative of the Government for improving its financial accountability and transparency.

2.13 The [Government's accrual-based Consolidated Statement of Financial Position and Consolidated Statement of Financial Performance for 2005-06](#) reported a number of assets and liabilities, e.g. investments in government business enterprises (\$204 billion), fixed assets (\$271 billion), pension liabilities (\$376 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 from 2004-05. The Government's adoption of accrual accounting will have wide ramifications on our regularity audit work.

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

2.14 The existing GFMIS is a group of financial systems that supports various accounting and financial management processes in the Government. It is basically built around the Ledger Accounting and Financial Information System (LAFIS), which has a history dated back to 1983. In June 2003, the Treasury commenced a project to implement a new GFMIS to replace some of its existing computer systems and processes. One of the objectives of the GFMIS is to support the implementation of accrual reporting. It is a set of modern, web-based accounting and financial management software. The project is scheduled for completion by 2008.

2.15 In early 2007, the Treasury commenced the User Acceptance Tests stage for Phase 1 of the GFMIS. Briefing sessions, training classes are arranged for bureaux and departments. Audit staff from the Regularity Audit Division have participated in these events organised by the Treasury.

2.16 The GFMIS would involve bureaux and departments and 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 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.

### *New auditing and accounting standards*

2.17 The accounting and auditing profession in Hong Kong has been undergoing developments that have significant impacts on our regularity audit work.

2.18 As part of an international standards convergence project, the Hong Kong Institute of Certified Public Accountants (HKICPA) has been issuing many new and revised auditing standards to converge with international standards. We have been making corresponding revisions to our auditing standards, and substantial recurrent resources are needed to implement the new audit requirements.

2.19 Also as part of the convergence project, the HKICPA has been issuing a large number of new and revised accounting standards which conform to international ones. We need to deploy considerable recurrent resources to ensure compliance with these standards by the auditees in preparing their annual financial statements.

### **Looking ahead**

2.20 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, the replacement of the existing computerised ledger accounting system by the new GFMIS, and the adoption of new auditing and accounting standards. Audit would continue to keep its audit methodology under review and align its audit methodology with best practices of the profession and to improve the efficiency and cost-effectiveness of its audit work.

## CHAPTER 3: VALUE FOR MONEY AUDIT

### Introduction

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

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

3.3 The 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.

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

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

3.6 In conducting VFM audit under the VFM Audit Guidelines, the Director of Audit is entitled to exercise the powers given to him under the Audit Ordinance. However, he is not entitled to question

the merits of the policy objectives, though he may question the economy, efficiency and effectiveness of the means used to achieve them.

### The year under review

3.7 In 2006-07, two Director of Audit's Reports on the results of VFM audits were submitted to the President of LegCo in April (Report No. 46) and October 2006 (Report No. 47), covering a total of 20 audit subjects. The [Director of Audit's Report No. 46](#) has nine subjects while the [Director of Audit's Report No. 47](#) has eleven subjects. The resources deployed to VFM audits represented 71 % of Audit's available resources. The amount involved constituted only a very small percentage (i.e. 0.034 %) of the Government's total expenditure.

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

#### Subjects in the Director of Audit's Report Nos. 46 and 47 selected for PAC hearing

Subject	Report No.	Chapter No.
Collection of fines imposed by Magistrates' Courts	46	1
RTHK: financial control and resource management	46	7
RTHK: governance and strategic management	46	8
Administration of short term tenancies	47	2
Hospital Authority: management of outstanding medical fees	47	5
Hospital Authority and Social Welfare Department: management of medical fee waivers	47	6

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, the media and the public showed great interest in the audit subjects. Some of the audit subjects hit the headlines of newspapers and were reported in detail. In general, the comments of the media and the public were very supportive of Audit's findings. The above audit subjects are briefly described in paragraphs 3.9 to 3.20.

#### *Report No. 46 Chapter 1: Collection of fines imposed by Magistrates' Courts*

3.9 **Background.** A fine is a punishment for an offence or a contravention imposed by a court. In 2004-05, \$289 million of fines were collected from cases heard in Magistrates' Courts. As at 31 December 2005, the total amount of fines outstanding was about \$93 million.



3.10 **Audit review.** The audit review focused on the following five areas, namely: imposition and settlement of fines, action on overdue fines, execution of distress warrants by the Court Orders Section, execution of non-payment warrants by the Police, and other issues relating to fines arising from moving offences and parking contraventions. The Administration has accepted all the audit recommendations. Improvements after the audit review include:

- (a) the Judiciary Administration has implemented a new measure that payment notices are issued to offenders who are allowed time to pay fines or to pay fines by instalments;
- (b) the Judiciary Administration has also introduced performance indicators to enhance performance monitoring and reporting on the collection of fines;
- (c) the Judiciary Administration has reviewed the processing of warrants and set a target time for submission of appropriate cases to Magistrates for consideration;
- (d) the Police, the Department of Justice and the Judiciary Administration have agreed to revise the existing threshold for application of distress warrants relating to parking contraventions; and
- (e) the Police has agreed to remove the existing threshold for the issue of warrants relating to moving offences.

**Report No. 46 Chapters 7 and 8: RTHK: financial control and resource management, governance and strategic management**

3.11 **Background.** Radio Television Hong Kong (RTHK) is a government department that serves the role of a public service broadcaster. Its aim is to inform, educate and entertain the general public and specific target audiences through a balanced mix of high quality programming. RTHK is editorially independent to ensure provision of fair, balanced and objective news and public affairs programmes. Four key programmes of activity are undertaken by RTHK, namely (a) Radio; (b) Public Affairs Television; (c) School Educational Television Production; and (d) New Media. RTHK is funded by the Government. In 2005-06, the estimated expenditure of RTHK was \$428 million.

3.12 **Audit review.** The results of the VFM audit of RTHK are reported in two separate chapters: RTHK: financial control and resource management (Chapter 7 of Report No. 46); and RTHK: governance and strategic management (Chapter 8 of Report No. 46).

3.13 Chapter 7 focused on six areas, namely: management of departmental contract staff and service providers, management of outsourcing activities, management of overtime work, stores and procurement matters, entertainment expenses and management of sponsorship. Chapter 8 focused on two areas, namely: compliance culture and internal control, and strategic planning and performance management. The Administration generally agreed with the audit recommendations.

**Report No. 47 Chapter 2: Administration of short term tenancies**

3.14 **Background.** The Lands Department (Lands D) is responsible for managing unleased government land and land held under short term tenancies (STTs). In 2005-06, the Lands D raised \$967 million rental income from the STTs. Audit conducted a review of the Lands D's administration of STTs and found that there were areas for improvement.

3.15 **Audit review.** The audit review focused on the following areas: administration of rent arrears, monitoring of tenants' performance, enforcement action on unauthorised use of sites for car-park purposes, enforcement action on unauthorised use of site for residential purposes, and other enforcement action. Two examples of areas for improvement identified by Audit are given below:

- (a) **Administration of rent arrears.** Audit examination of the Lands D's annual returns of arrears of revenue for the years 1999-2000 to 2004-05 revealed that four significant STT rent arrears had not been included in the returns. Audit has recommended that the Director of Lands should comply with Standing Accounting Instruction 1020 when preparing annual returns of arrears of revenue. Audit test check revealed that the Lands D had not taken action to write off four long outstanding STT rent arrears cases despite there were indications that recovery action would not be fruitful. Audit has recommended that the Director of Lands should conduct a review of the long outstanding cases of rent arrears and take timely write-off action if the Lands D is satisfied that recovery action would be futile; and
- (b) **Enforcement actions on unauthorised use of sites for car-park purposes.** Between 2000 and 2002, the Lands D let out three sites by STTs. In all the three STTs, the Lands D found that the tenants had breached the tenancy conditions by using the sites as fee-paying car parks. Audit has recommended that the Director of Lands should issue guidelines stipulating the types and timing of enforcement actions that should be taken against tenants in breach of tenancy conditions, and ensure that prompt and effective enforcement actions are taken.

3.16 The audit recommendations were accepted by the Administration.

#### **Report No. 47 Chapter 5: Hospital Authority: management of outstanding medical fees**

3.17 **Background.** The Hospital Authority (HA) is a statutory body established in December 1990 to manage all public hospitals. In 2006-07, Government's recurrent subvention to the HA was estimated to be \$27,761 million. Under the existing system of medical fees and charges (fees), eligible persons are entitled to use public medical services which are heavily subsidised at about 96% of the full cost. In 2005-06, the fee income of the HA amounted to \$1,607.7 million. As at 31 March 2006, the amount of fees owed by patients was \$130.4 million. In 2005-06, fees written off by the HA amounted to \$43.9 million.

3.18 **Audit review.** The audit review focused on the following areas: collection of outstanding fees by hospitals, collection of outstanding fees by Hospital Authority Head Office (HAHO), use of public medical services by non-eligible persons, measures to minimise need for recovery and write-off of fees. Two examples of areas of improvement are given below:

- (a) **Collection of outstanding fees by hospitals.** Audit noted that some hospitals had developed their own initiatives to improve the collection of fees. To maximise the impact of these good initiatives, Audit has recommended that the Chief Executive, HA should evaluate the effectiveness of the hospitals' initiatives and develop good practice guidelines for dissemination among all hospitals; and

- (b) **Collection of outstanding fees by HAHO.** Audit notes that the HAHO has published limited performance indicators on the collection of outstanding fees. Audit has recommended that the Chief Executive, HA should: (i) identify and develop more efficiency and effectiveness indicators to assess the performance of the HA's collection of outstanding fees; (ii) set targets for the performance indicators developed; and (iii) publish the result against the performance indicators and targets set.

**Report No. 47 Chapter 6: Hospital Authority and Social Welfare Department: management of medical fees waivers**

3.19 **Background.** Patients who are Comprehensive Social Security Assistance (CSSA) recipients can obtain free medical treatment at public hospitals managed by the HA. Under the Wavier System, patients who are not CSSA recipients but have financial difficulties may approach Medical Social Workers (MSWs), stationed in the Medical Social Services Units (MSSUs) of hospitals, to apply for fee waivers. As at 30 June 2006, there were a total of 48 MSSUs and 468 MSWs. In 2005-06, the amounts of fees waived for CSSA recipients and non-CSSA recipients were \$432.2 million and \$84.9 million respectively.

3.20 **Audit review.** Audit reviewed the economy, efficiency and effectiveness of the SWD and the HA in managing the Wavier System. Audit paid visits to six hospitals and conducted two surveys among all Officers-in-charge of MSSUs and all MSWs. Audit has found that both the SWD and the HA have taken continuous action to improve the Wavier System, but there are still areas where further improvements can be made. Two examples of areas of improvements are given below:

- (a) **Processing of waiver applications.** Audit examination of waivers granted on non-financial grounds revealed that in some cases, the MSWs had not provided specific justifications to support the need for granting waivers to the patients who had financial resources significantly exceeded the financial limits for granting waivers. Audit has recommended that the Director of Social Welfare and the Chief Executive, HA should require MSWs to properly document their justifications for granting waivers, and provide more specific guidance to help MSWs assess the non-financial factors for granting waivers; and
- (b) **Management control on fee waivers.** Despite that the amount of fees waived for CSSA recipients was significant, only a small percentage of the CSSA waiver cases were selected by the HA for the SWD's manual checking of the eligibility status of patients. Audit has recommended that the Director of Social Welfare and the Chief Executive, HA should consider the feasibility of establishing an on-line enquiry facility at hospitals, which can readily confirm the CSSA status of patients.

## Looking ahead

3.21 The public has expectation on the Government and public bodies to use public moneys wisely. The expectation is not only high, but is also growing. The role of the Audit Commission becomes more and more important in ensuring the economy, efficiency and effectiveness with which any audited body (bureau/department of the Government, agency, other public body, public office or

audited organisation) has discharged its functions. Despite the limited resources available for VFM audits, there has been growing public expectation for Audit to conduct more complex and high-impact VFM audits.

3.22 To meet these challenges, in September 2005, Audit underwent a major reorganisation with the establishment of specialised Divisions to undertake regularity audit, VFM audit and corporate services separately. Besides, Audit uses IT to support its administrative work. For instance, Audit has developed a Project Accounting and Management System to support the monitoring and management of staff resources.

## **CHAPTER 4: CORPORATE SERVICES**

### **Introduction**

4.1 The Corporate Services Division is responsible for the provision of corporate services, which include departmental administration, the Director of Audit's Report production work, translation services, technical audit, quality assurance, external and press relations, executive support, training, grade and personnel management, 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 The past 12 months had been very eventful for the staff involved in the provision of corporate services. It was also a busy but fruitful year. Compared with past years, more training and public relations work was conducted. We also had a very busy schedule receiving visitors from Mainland China and overseas. Our corporate services work in the past 12 months included:

- (a) The Director of Audit's Report production work — Reports No. 46 and 47, and Report on the Accounts of the Government for the year ended 31 March 2006;
- (b) Support services:
  - (i) Corporate Plan;
  - (ii) Environmental Report;
  - (iii) Media research; and
  - (iv) IT support;
- (c) Quality assurance work;
- (d) External and press relations:
  - (i) Public relations work;
  - (ii) Speeches and presentations by the Director of Audit;
  - (iii) Participation in the 10<sup>th</sup> Assembly and 3<sup>rd</sup> Symposium of the Asian Organisation of Supreme Audit Institutions (ASOSAI);
  - (iv) Participation in the Public Sector Reform Conference 2006;
  - (v) Participation in the Conference on Audit Theories and Practices;
  - (vi) Receiving visitors from Mainland China and overseas; and
  - (vii) Secondment from Audit Bureau of Hangzhou City; and
- (e) Training and development programmes.

***The Director of Audit's Report production work  
— Report Nos. 46 and 47, and Report on the Accounts of the Government***

4.4 The Director of Audit's Report Nos. 46 and 47 were issued in March and October 2006. They include the results of VFM audits completed during the period October 2005 to February 2006 and the period March to September 2006 respectively. Together with Report No. 47, the Report of the Director of Audit on the Accounts of the Government for the year ended 31 March 2006 was also issued in October 2006.

4.5 Report No. 46 was tabled in LegCo on 26 April 2006. It contains nine chapters, three of which were considered by the PAC during their public hearings held in May 2006. The Report on the Accounts of the Government for the year ended 31 March 2006 and Report No. 47 were tabled in LegCo on 15 November 2006. Report No. 47 contains eleven chapters, three of which were considered by the PAC during their public hearings held in November to December 2006. 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](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. The Corporate Plan for the next three-year period 2007-08 to 2009-10 is under preparation and will be issued in June 2007.

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 2006-07, which was issued in June 2006, set out the broad directions for conducting our core businesses and the key initiatives planned for the audit year September 2006 to August 2007. The Five-year VFM Audit Strategic Plan and the annual POW were then prepared to translate the initiatives set out in the Business Plan into detailed work programmes, the completion of which would contribute to the achievement of the key results which we aimed to achieve. Appendix C shows the key targets and indicators of the Commission.

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

***Environmental Report***

4.9 Starting from 2001, an annual Environment Report has been issued to help promote environmental protection. The Environmental Report 2006 was Audit's 6<sup>th</sup> report. 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 2006 is available on our website at [http://www.aud.gov.hk/eng/otherinfo/info\\_envrpt.htm](http://www.aud.gov.hk/eng/otherinfo/info_envrpt.htm).

### ***Media research***

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

### ***IT support***

4.12 Our Departmental IT Plan for the period 2006-07 to 2007-08 was issued in July 2006. The IT Plan:

- (a) takes stock of our IT facilities and of our progress in implementing IT tasks identified in the last IT Plan;
- (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 2006, the Audit Commission's network was upgraded from Asynchronous Transfer Mode to Metro Ethernet. Fibre optic cable was installed from the server room to remote offices in the Immigration Tower. After the installation, staff working in remote offices can access the Commission's LAN more readily. In addition, to improve records management and file storage, a high-speed colour copying machine with scanning function was procured to digitalise old file records and documents.

### ***Quality assurance work***

4.14 The Technical Administration Branch carried out technical audit of all the chapters included in Report Nos. 46 and 47 of the Director of Audit to ensure their accuracy and quality. The Branch also carried out a quality assurance review of Chapter 7 of Report No. 47 of the Director of Audit "Implementation of minor works projects by the Home Affairs Department". Useful suggestions for improvement were given to the audit team.

***Public relations work***

4.15 A key objective of our public relations work is to let different stakeholder groups understand the role and work of the Audit Commission. The following are some of the key events in the past year:

- (a) the TAB gave a seminar on the role of the Audit Commission to 36 Executive Officers on 7 July 2006 at the Civil Service Training and Development Institute. The participants showed great interest in the work of the Audit Commission;
- (b) the Director of Audit explained the work of the Audit Commission to the media on various occasions:
  - (i) Ming Pao on 31 August 2006;
  - (ii) NOW Broadband TV on 1 September 2006; and
  - (iii) Cable TV on 8 September 2006 in the “Allen Lee Show”;
- (c) the Hong Kong Institute of Certified Public Accountants (HKICPA) held its Annual Dinner in the Hong Kong Convention and Exhibition Centre on 7 December 2006. The Director attended the dinner and exchanged views with professional accountants on matters of mutual interest;
- (d) the CPA Australia Hong Kong China Division held its Appreciation Luncheon at the Conrad Hotel held on 26 March 2007. The Director attended the function and exchanged views with the CPA Australia’s National President Mr Paul Meiklejohn and Chief Executive Mr Geoff Rankin; and



**Director of Audit attended the luncheon of the CPA Australia Hong Kong China Division on 26 March 2007**

- (e) the Director attended the Spring Cocktail Reception of the HKICPA held in the Institute’s Auditorium on 1 March 2007.



### *Speeches and presentations by the Director of Audit*

4.16 During the period April 2006 to March 2007, 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) luncheon speech by the Director of Audit on “The Role of Auditor in Corporate Compliance” on 12 June 2006 to the fellow members of The Hong Kong Institute of Chartered Secretaries;
- (b) speech on “Value for Money Audits and Enhancing Public Service Delivery” on 11 July 2006 in the Customer Relationship Excellence & Customer Service Quality Standard Summit organised by the Asia Pacific Customer Service Consortium;
- (c) luncheon speech by the Director of Audit on “How the Audit Commission Helps to Enhance Public Sector Performance and Accountability in Hong Kong” on 21 September 2006 to members of the Hong Kong Society of Certified Insurance Practitioners; and
- (d) speech by the Director of Audit on “The Work of the Audit Commission” on 12 February 2007 to members of Rotary Club of Tai Po.

### *Participation in the 10<sup>th</sup> Assembly and the 3<sup>rd</sup> Symposium of the Asian Organisation of Supreme Audit Institutions*

4.17 At the invitation of the National Audit Office of the People’s Republic of China (CNAO), Mr Benjamin Tang, Director of Audit and Mr Pang Kwok-sing, Senior Auditor attended the 10<sup>th</sup> Assembly and the 3<sup>rd</sup> Symposium of the ASOSAI as members of the China Delegation, which was headed by the Auditor General of the CNAO, Mr Li Jinhwa. The Head of the Commission of Audit of Macao, Ms Fatima Choi was also a member of the China Delegation. The Assembly and the Symposium were held in Shanghai from 11 to 16 September 2006.



**Director of Audit and  
Mr Li Jinhwa, Auditor  
General of the CNAO**



**Director of Audit and  
Mr Liu Jiayi, Deputy  
Auditor General of  
the CNAO**

4.18 The participation of the Audit Commission in the Assembly and Symposium was very useful in helping us keep abreast of the developments in public sector auditing. It also provided a good opportunity for us to exchange views and share good practices with our counterparts in the CNAO, the Macao Audit Commission and other Asian national audit offices.



**Members of the China Delegation**

#### ***Participation in the Public Sector Reform Conference 2006***

4.19 The Director of Audit attended the Public Sector Reform Conference 2006 organised by the Efficiency Unit in April 2006. The conference was to help maintain the momentum of the Government's ongoing public sector reform programme. The objectives were to encourage a greater focus on the needs of the citizens, improve efficiency and productivity, promote the use of new technologies, and ensure value for money.

4.20 The Director of Audit was one of the guest speakers and he gave a speech on “Value for Money Audits and Improvements in Quality Customer Service” at the session on 4 April 2006. The conference was a great success and many favourable comments on the topicality of issues selected and the quality of the presentations were received.

### ***Participation in the Conference on Audit Theories and Practices***

4.21 On 15 to 17 December 2006, Mr Maurice Chun, Senior Auditor and Mr Alfred Wong, Auditor, attended the Conference on Audit Theories and Practices organised by the Guangdong Province Audit Society. The conference focused on two themes, namely IT audit and performance audit. There were around 50 participants, including renowned professors from the Sun Yat Sen University and the Jinan University, the Vice Director of the Audit Office of Guangdong Province, representatives from the Commission of Audit of the Macao SAR and the President of the Society of Chinese Accountants and Auditors.

4.22 Mr Chun presented a paper on IT audit and gave a brief introduction of the work of the Audit Commission. He shared with the participants the recent developments in auditing standards and IT that posed risks and challenges to the IT audit profession, and the experience of the Audit Commission in dealing with the problems.



**Participants at the Conference on Audit Theories and Practices**

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

4.23 In the period April 2006 to March 2007, 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 Li Yufu, Vice Minister, the Ministry of Supervision together and Mr Li Yaqu, Secretary, the Ministry of Supervision visited the Audit Commission on 23 June 2006. Mr Johnsmen Au, Deputy Director of Audit, and other representatives of the Audit Commission gave Mr Li a short briefing on the work of the Commission;



**Mr Li Yufu (on the right), Vice Minister, the Ministry of Supervision presented a souvenir to Mr John Au, Deputy Director of Audit**

- (b) on 19 July 2006, Ms Amornjit Eawiboonvit, Deputy Auditor General of the Office of the Auditor General of Thailand, and a delegation of senior officials visited the Audit Commission. 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;



**The Delegation of Office of the Auditor General of Thailand**

- (c) Mrs Nancy Cheng, Assistant Auditor General, Office of the Auditor General of Canada, visited the Audit Commission on 13 December 2006; and
- (d) Mr Jiao Zhengzhong, Vice Governor of Jilin Province, visited the Audit Commission on 22 March 2007. Mr John Au, Deputy Director of Audit, and other representatives of the Audit Commission gave Mr Jiao a short briefing on the work of the Commission.





Mr Jiao Zhengzhong (on the right), Vice Governor of Jilin Province presented a souvenir to Mr John Au, Deputy Director of Audit

#### *Secondment from Audit Bureau of Hangzhou City*

4.24 Ms Yu Bin of the Audit Bureau of Hangzhou City was seconded to the Audit Commission under the Staff Exchange Programme between the HKSAR Government and the Mainland authorities. During her secondment period with the Audit Commission from 11 September to 10 October 2006, she was deployed to various VFM Audit Divisions and the Regularity Audit Division.

#### *Training and development programmes*

4.25 **Leadership in Action Programme.** In 2006, Mr Kenneth Ho and Mr Terence Li, Senior Auditors, 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.

4.26 **Work Smart and Play Hard.** A seminar “Work Smart and Play Hard” was held on 9 June 2006. During the seminar, Mr Philip Tsai, Audit Partner of Deloitte Touche Tohmatsu shared with audit staff his valuable experience in motivating his staff and helping them achieve a harmonious relationship between work and leisure.



**Mr Benjamin Tang, the Director of Audit, presented a souvenir to Mr Philip Tsai**

4.27 ***Work of Audit Bureau of Hangzhou City.*** A presentation on “Work of Audit Bureau of Hangzhou City” was given by Ms Yu Bin of the Audit Bureau of Hangzhou City. During the presentation, Ms Yu talked about the work of the Bureau and compared the audit methodologies of the Bureau and the Audit Commission.



**Mr Benjamin Tang presented a souvenir to Ms Yu Bin**

4.28 ***Debriefing session on “Conference on Audit Theories and Practices”.*** On 12 January 2007, TAB organised a debriefing session on “Conference on Audit Theories and Practices”. During the session, Mr Maurice Chun, Senior Auditor, and Mr Alfred Wong, Auditor, talked about issues on performance audits, and risks and challenges of IT audits in the Mainland.

4.29 ***Successfully Combating Corporate Fraud Conference.*** Mr Joseph Ying, Assistant Director of Audit, and Mr Maurice Chun, Senior Auditor, attended the Successfully Combating

Corporate Fraud Conference in Singapore organised by the Asia Business Forum on 1 February 2007 and 2 February 2007. The conference provided a forum for representatives of the Audit Commission to gain knowledge about the latest development in forensic accounting and corporate fraud combating from a panel of international experts.

4.30 The conference covered topics like uncovering the latest threats and deception techniques, advanced money laundering and terrorist financing detection strategies, effective fraud prevention and detection, effective fraud investigations, and critical overview of the Sarbanes-Oxley Act.

### **Looking ahead**

4.31 In 2006-07, we made great efforts to improve the quality of our products and services, enhance the public's understanding of our role and our work, maintain good relationships with organisations in Mainland China and overseas, and enhance staff training. In the year ahead, we will continue with these efforts to help us meet the challenges facing us in the 21<sup>st</sup> century.

**The 79 accounts certified in 2006-07**

**Accounts of the Government**

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

**Trading Funds**

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

**Other Funds**

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



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

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

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

## **Vision, Mission and Values**

### **Vision**

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

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

### **Mission**

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

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

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

## **Values**

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

### ***Independence***

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

### ***Professionalism***

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

### ***Commitment***

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

### ***Innovation***

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

### ***Objectivity***

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

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

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

### ***Responsiveness***

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

**Key Targets and Indicators**

	Unit	Target	2005-06 (Actual)	2006-07 (Revised Estimate)	2007-08 (Plan)
<b>Regularity Audit</b>					
<b>Targets</b>					
Number of Director of Audit's Reports submitted to the Legislative Council	Report	1	1	1	1
Time required to certify the statements of accounts of the Government after the end of each financial year	Month	7	7	7	7
<b>Indicators</b>					
Number of accounts certified	Account		77	79	82
Number of man-hours spent	Man-hour		96 685	87 603	88 964
Provision for regularity audit as % of total government spending	%		0.016	0.014	0.013
<b>Value for Money Audit</b>					
<b>Targets</b>					
Number of Director of Audit's Reports submitted to the Legislative Council	Report	2	2	2	2
Number of value for money audit reports issued to audited bodies	Report	19	18	19	19
<b>Indicators</b>					
Number of man-hours spent	Man-hour		152 267	162 281	162 852
Provision for value for money audit as % of total government spending	%		0.032	0.034	0.032

## Calendar of key events

(1 April 2006 to 31 March 2007)

Date	Event
4 April 2006	The Director of Audit gave a speech on “Value for Money Audits and Improvements in Quality Customer Service” in the Public Sector Reform Conference 2006 organised by the Efficiency Unit.
10 April 2006	The Political and Public Administration Association of Social Science Society, the University of Hong Kong visited the Audit Commission.
26 April 2006	The Director of Audit’s Report No. 46 was tabled in the Legislative Council.
9 May 2006	The Director of Audit attended The Third ICAC Symposium held in Hong Kong Convention and Exhibition Centre.
29 May 2006	A delegation from the Tianjian Audit Office visited Audit Commission.
9 June 2006	Mr Philip Tsai, Audit Partner of Deloitte Touche Tohmatsu, shared with our staff his valuable experience in motivating his staff and helping them achieve a harmonious relationship between work and leisure.
9 June 2006	A representative of the Audit Commission attended the annual dinner of The Certified Management Accountants of Canada, Hong Kong Branch at The Hong Kong Bankers Club.
12 June 2006	The Director of Audit was invited by The Hong Kong Institute of Chartered Secretaries to give a speech on “The Role of Auditor in Corporate Compliance” to its fellow members.
23 June 2006	Mr Li Yufu, Vice Minister, Ministry of Supervision, PRC, visited the Audit Commission.
11 July 2006	The Director of Audit gave a presentation on “Value for Money Audits and Enhancing Public Service Delivery” in the Customer Relationship Excellence & Customer Service Quality Standard Summit organised by the Asia Pacific Customer Service Consortium.

**Appendix D**  
(Cont'd)

19 July 2006	Audit held a seminar for a delegation from the Office of the Auditor General of Thailand.
1 August 2006	A delegation from the Nanjing University of Finance and Economic and Nanjing Audit University visited our office and a talk was delivered to them.
23 August 2006	Audit held a seminar for a delegation from the Jiangsu Province.
6 September 2006	Officials from Guangdong Province and Hangzhou City visited the Audit Commission.
11 September – 10 October 2006	Ms Yu Bin of the Audit Bureau of Hangzhou City on training attachment in the Audit Commission.
11 – 15 September 2006	The Director of Audit, and a Senior Auditor, attended the 10 <sup>th</sup> Assembly and the 3 <sup>rd</sup> Symposium of the ASOSAI held in Shanghai.
18 September 2006	The Director of Audit attended a lunch meeting with Mr Jeon Yun-churl, Chairman of the Board of Audit and Inspection of Korea to exchange views on matters of mutual interest.
6 November 2006	A representative of the Audit Commission attended the annual dinner of the Canadian Certified General Accountants Association of Hong Kong and exchanged views with professional accountants.
15 November 2006	The Director of Audit's Report No. 47 was tabled in the Legislative Council.
19 – 24 November 2006	A Senior Auditor and an Auditor visited the HM Treasury and the National Audit Office in London.
20 November 2006	The Director of Audit attended the 5th Anniversary and Website Launching Ceremony of The Hong Kong Coalition of Professional Services.
24 November 2006	A delegation from the China Supervision Institute visited the Audit Commission. Our staff gave a presentation on the work of the Audit Commission to the visitors.
3 – 4 December 2006	The Director of Audit attended the ITU Telecom World 2006 organised by the International Telecommunications Union.
7 December 2006	The Director of Audit attended the Annual Dinner of the Hong Kong Institute of Certified Public Accountants.
12 December 2006	A delegation from the Chinese Academy of Sciences visited the Audit Commission.



**Appendix D**  
(Cont'd)

13 December 2006	A group of Jiangsu audit and accounting officials visited the Commission.
13 December 2006	Mrs Nancy Cheng, Assistant Auditor General of the Office of the Auditor General of Canada, visited the Audit Commission.
15 – 17 December 2006	A Senior Auditor and an Auditor, attended the Conference on Audit Theories and Practices organised by the Guangdong Province Audit Society.
16 January 2007	A delegation of the Business Association of the University of Hong Kong visited the Audit Commission.
1 – 2 February 2007	An Assistant Director and a Senior Auditor attended the Successfully Combating Corporate Fraud Conference in Singapore organised by the Asia Business Forum.
12 February 2007	The Director of Audit made a speech on “The Work of the Audit Commission” to members of Rotary Club of Tai Po.
13 February 2007	A delegation of officials from Heshan City visited the Audit Commission.
1 March 2007	The Director of Audit attended the Spring Cocktail Reception of the Hong Kong Institute of Certified Public Accountants.
7 March 2007	A representative of the Audit Commission attended the spring dinner of the ACCA Hong Kong exchange views with professional accountants.
22 March 2007	Mr Jiao Zhengzhong, Vice Governor of Jilin Province, visited the Audit Commission.
26 March 2007	The Director of Audit attended the CPA Australia Hong Kong China Division’s Appreciation Luncheon and exchanged views with the CPA Australia’s President Mr Paul Meiklejohn and Chief Executive Mr Geoff Rankin.
30 March 2007	Three officials from the National Audit Office of China visited the Audit Commission.