

**HONG KONG SPECIAL
ADMINISTRATIVE REGION**

Audit Commission

Annual Report 2012-13

**Audit Commission
Hong Kong
September 2013**

AUDIT COMMISSION

ANNUAL REPORT 2012-13

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Director's Message

It is my great honour and pleasure to serve as the Director of Audit starting from July 2012. I am pleased to present my first Annual Report of the Audit Commission for the financial year 2012-13.

The year under review

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

3. VFM audit is intended to provide independent information, advice and assurance about the economy, efficiency and effectiveness of the auditees. We aim to make value-added recommendations to help them achieve better VFM. In 2012-13, we issued a number of VFM audit reports which attracted considerable public interest. In May 2012, we also issued a special report on the hotel accommodation arrangements for the Chief Executive's duty visits outside Hong Kong.

4. Regularity audit is similar to financial audit in the private sector. In 2012-13, a total of 82 accounts were audited and certified, including all of the Government's accounts, the accounts of the Hong Kong Housing Authority, the Exchange Fund, five Trading Funds and more than 60 other funds.

5. We have been invited to attend conferences and various functions of professional bodies to exchange experience and knowledge about public sector auditing. We also received visitors from the Mainland and overseas, and shared with them our audit experience.

The way ahead

6. We shall continue to uphold our values and professionalism in providing independent and quality public sector audit services. The professional competence and expertise of our staff are vital to the success of the Commission. We are a

people-oriented organisation and committed to creating a work environment which values our staff and helps them meet their respective full potential. We strive to help our staff make continuous development through thinking, learning and sharing.

7. The Commission has a long history of excellence in helping the Government enhance public sector performance and accountability. I hope that my experience in public auditing will complement and contribute to the Commission's key role to provide independent public sector audit services.

8. I would like to thank the Public Accounts Committee of the Legislative Council for their continuous support to our work over the past year. I would also like to acknowledge with gratitude the full cooperation and assistance rendered by the auditees. Our achievement is no doubt built on the hard work and dedication of our staff. I wish to extend my heartfelt appreciation to all of them. Finally, I would like to thank the former Director of Audit, Mr Benjamin Tang, for his leadership and contributions to the Commission and wish him continued success in his future endeavours.

David Sun, BBS, JP
Director of Audit
September 2013



Role of the Audit Commission

1. ***Independence.*** According to [Article 58 of the Basic Law of the Hong Kong Special Administrative Region](#), a Commission of Audit shall be established in the Hong Kong Special Administrative Region (HKSAR), which shall function independently and be accountable to the Chief Executive (CE) of the HKSAR.
2. ***Audit Ordinance.*** The [Audit Ordinance \(Cap. 122\)](#) provides for the duties and powers of the Director of Audit and for the auditing of and reporting on the public accounts. In the performance of his duties and the exercise of his powers under the Ordinance, the Director is not subject to the direction or control of any other person or authority. The audit work carried out in accordance with the Ordinance is generally known as regularity audit.
3. ***Public Accounts Committee.*** The [Public Accounts Committee](#) (PAC) of the [Legislative Council](#) (LegCo) considers the reports of the Director of Audit on the accounts of the Government, on such other accounts required to be laid before LegCo as the PAC may think fit, and on any matter incidental to the performance of the Director's duties or the exercise of his powers as the PAC may think fit. The PAC also considers value for money (VFM) audit reports of the Director laid on the table of LegCo.
4. ***Value for Money Audit Guidelines.*** VFM audit is carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the PAC in February 1998. This [VFM Audit Guidelines](#) was agreed between the PAC and the Director of Audit and accepted by the Administration.
5. ***Reporting to the Legislative Council.*** According to the Audit Ordinance, the Director of Audit shall prepare and submit to the President of LegCo a report in respect of his examination and audit of the accounts of the Government. A copy of the report and certified statements shall be laid before LegCo. According to the VFM Audit Guidelines, the Director of Audit shall report his findings on VFM audits in LegCo twice a year.

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

7. *Organisation of the Audit Commission.* The Audit Commission (Audit) is made up of six Divisions, namely one Regularity Audit Division, four VFM Audit Divisions, and one Corporate Services Division. As at 31 March 2013, Audit had an establishment of 187 posts. There were 62 posts (33%) in the Auditor grade, 87 posts (47%) in the Examiner grade and 38 posts (20%) in the general and common grades.

Regularity audit

8. The aim of regularity audits is to provide LegCo with an overall assurance that the Government's financial and accounting transactions and those of funds of a public or quasi-public nature are proper and that they conform to accepted accounting standards. Regularity audit is carried out mainly under the Audit Ordinance and in accordance with the Audit Commission auditing standards.

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

The year under review

10. On 30 October 2012, the Director of Audit submitted the Report of the Director of Audit on the Accounts of the Government of the HKSAR for the year ended 31 March 2012 to the President of LegCo.

11. In 2012-13, a total of 82 accounts were audited and certified, i.e. all of the Government's accounts, the accounts of the Hong Kong Housing Authority, the Exchange Fund, five Trading Funds and 65 other funds. Appendix A is a list of these 82 accounts.

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

- (a) ***Increase in government spending and new government initiatives.*** There has been a significant rise in government spending (from \$233 billion in 2005-06 to \$381 billion in 2012-13 (an increase of 64%). Moreover, the Government has, over the years, launched a number of new initiatives (e.g. the Public Transport Fare Concession Scheme) and provided various subsidies to eligible recipients (e.g. the Work Incentive Transport Subsidy Scheme). In view of the significant increase in scope, complexity and coverage of the government spending and the launch of new government initiatives in recent years, it has been necessary for Audit to carry out in-depth reviews or risk audits to ensure that the programmes are operated within the approved ambit and that the funds are expended in accordance with laid-down policy objectives and conditions; and
- (b) ***New accounting and auditing standards.*** As part of the international standards convergence project, the Hong Kong Institute of Certified Public Accountants continues to issue new and revised accounting and auditing standards from time to time. We have to deploy substantial resources to implement the new auditing requirements, and to ensure compliance with the new and revised accounting standards by the auditees in preparing their financial statements.

Value for money audit

13. The aim of VFM audits is to provide 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.

14. VFM audits are carried out under the VFM Audit Guidelines. Like regularity audits, VFM audits are conducted in accordance with the Audit

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Commission auditing standards and a programme of work determined annually by the Director of Audit. In conducting VFM audit under the VFM Audit Guidelines, the Director of Audit is entitled to exercise the powers given to him under the Audit Ordinance. However, he is not entitled to question the merits of the policy objectives, though he may question the economy, efficiency and effectiveness of the means used to achieve them.

The year under review

15. In 2012-13, two Director of Audit's Reports on the results of VFM audits were submitted to the President of LegCo in March (Report No. 58) and October 2012 (Report No. 59), covering a total of 18 audit subjects. The [Director of Audit's Report No. 58](#) has eight subjects while the [Director of Audit's Report No. 59](#) has ten subjects.

16. The PAC continued to express keen interest in the audit subjects in the two Director of Audit's Reports, and selected the following six subjects for public hearing:

- (a) unlawful occupation of government land and Youth Square in Report No. 58; and
- (b) monitoring and reporting of air quality, implementation of air-quality improvement measures, regulatory control of private hospitals and land grants for private hospital development in Report No. 59.

The PAC examined at length a number of issues raised in the audit reports. The audit conclusions and recommendations were generally accepted by the PAC and the auditees. Like the VFM audit reports issued in past years, some audit subjects in these two reports hit the headlines of newspapers and were widely reported. In general, the comments from the media and the public were supportive of Audit's findings.

17. In April 2012, the CE invited Audit to review the mechanism adopted by the Chief Executive's Office in making arrangements for hotel accommodation during the CE's duty visits outside Hong Kong. A special report was submitted to the CE, and made public, on 31 May 2012. A press conference was also held on the same date. The recommendations were accepted by the Chief Executive's Office.

Corporate services

18. The Corporate Services Division of the Commission is responsible for the provision of corporate services, which include departmental administration, the Director of Audit's Report production work, translation services, technical audit, quality assurance, external and press relations, executive support, training, grade and personnel management, local area network administration, information technology (IT) support, and other support services.

The year under review

19. In 2012-13, our work on corporate services included:

- (a) ***Director of Audit's Report production work.*** The Director of Audit's Report Nos. 58 and 59 were submitted to the President of LegCo in March and October 2012. They include the results of VFM audits completed during the period October 2011 to February 2012 and the period March to September 2012 respectively. Together with Report No. 59, the Report of the Director of Audit on the Accounts of the Government of the HKSAR for the year ended 31 March 2012 was also submitted to the President of LegCo in October 2012. The special report on hotel accommodation arrangements for the CE's duty visits outside Hong Kong was issued on 31 May 2012. The Director of Audit's Reports are available on our website at http://www.aud.gov.hk/eng/pubpr_arpt/rpt.htm;
- (b) ***Support services.*** This work included:
 - (i) ***Corporate Plan.*** The Corporate Plan covering the three-year period 2010-11 to 2012-13 was issued in July 2010. It outlines the Vision, Mission and Values of the Commission (see Appendix B). It also sets out five Key Result Areas, which serve as the focus of our delivery of quality audit services. Appendix C shows the key targets and indicators of the Commission. (Following the expiration of the Corporate Plan, a new Strategic Framework was issued in July 2013. It sets out the Commission's long-term strategy, including our Vision, Mission and Values — http://www.aud.gov.hk/pdf_e/strategic_e.pdf.);
 - (ii) ***Environmental Report.*** Starting from 2001, an annual Environmental Report has been issued to help promote environmental protection. The Environmental Report 2012 is available on our website at http://www.aud.gov.hk/eng/otherinfo/info_envrpt.htm;

- (iii) **Media research.** We conducted media research on a daily basis (e.g. newspaper clippings) to keep in view possible audit issues reported in the media. We also collected useful feedback (e.g. media comments and views from the public) on our published VFM audit reports; and
 - (iv) **IT support.** Our Departmental IT Plan for the two-year period 2012-13 to 2013-14 was prepared in June 2012. It was used to monitor the development of IT projects in the Commission;
- (c) **External and press relations.** This work included:
- (i) **Public relations work.** The Director of Audit attended various functions of professional bodies to exchange experience and knowledge about public sector auditing and took part in media interviews to explain our work in 2012-13;
 - (ii) **Presentations and talks by the Director of Audit.** In 2012-13, the Director delivered a number of presentations and talks on subjects related to our work to various organisations. For example, a talk was given at the “CPA Congress 2012 — Your Guide Through Uncharted Territory” organised by the CPA Australia on 19 November 2012;
 - (iii) **Visit by the PAC.** On 6 November 2012, the Chairman (Hon Abraham Shek Lai-him), the Deputy Chairman (Hon Paul Tse Wai-chun) and four Members (Hon Chan Hak-kan, Hon Wong Yuk-man, Hon Ng Leung-sing and Hon Kenneth Leung) of the PAC visited the Commission. Our Director and senior officers had a constructive exchange of views on various aspects of public sector auditing with the visitors;
 - (iv) **Participation in conferences.** Staff members of the Commission attended the "Guangdong-Hong Kong-Macao Infrastructure Investment Audit Conference 2012" in Guangzhou in August 2012 and the "Cross straits, Hong Kong and Macao Audit Theories and Practices Conference 2012" in Xian in September 2012;
 - (v) **Receiving visitors from the Mainland and overseas.** In 2012-13, the Commission held 13 seminars for visitors from the Mainland and overseas. Our staff gave presentations on our work; and

- (vi) *Audit Commission Job Shadow Day.* For the third time, the Commission participated in the Job Shadowing Programme of Junior Achievement Hong Kong on 23 May 2012. 20 students from two schools visited our office to attend the Audit Commission Job Shadow Day. Ten audit staff (including Auditors and Examiners) served as workplace mentors to share their work experience with these students; and
- (d) *Training and development programmes.* We have made use of the services provided by the Civil Service Training and Development Institute to meet the training needs of our staff. Staff are encouraged to apply for courses relevant to their work and personal needs. In-house seminars/workshops are also organised mainly to address the operational needs of the Commission and the personal development of our staff.

Looking ahead

20. The year 2012 marked the Commission's 168th anniversary. The Commission has a long history of excellence in providing independent, professional and quality audit services to help the Government and public sector organisations enhance public sector performance and accountability. We will continue to uphold our values, maintain our independent role, add value to public sector management, improve our audit services, make continuous improvement in our audit methodology and technology, maintain effective relation with our stakeholders and seek opportunity for ongoing interaction with our counterparts to achieve our vision of "excellence in public sector auditing".

The 82 accounts certified in 2012-13

Accounts of the Government

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

Trading Funds

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

Other Funds

- (16) AIDS Trust Fund
- (17) Bankruptcy Estates Account
- (18) Brewin Trust Fund
- (19) Chinese Temples Fund
- (20) Companies Liquidation Account
- (21) Correctional Services Children's Education Trust
- (22) Correctional Services Department Welfare Fund
- (23) Customs and Excise Service Children's Education Trust Fund
- (24) Customs and Excise Service Welfare Fund
- (25) Director of Social Welfare Incorporated Accounts
- (26) District Court Suitors' Funds
- (27) Early Retirement Ex-gratia Payment Fund for Aided Secondary School Teachers
- (28) Education Development Fund
- (29) Education Scholarships Fund
- (30) Emergency Relief Fund
- (31) Environment and Conservation Fund
- (32) Exchange Fund
- (33) Financial Reporting Council
- (34) Fire Services Department Welfare Fund

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

- (55) Official Administrator's Account
- (56) Official Receiver in Bankruptcy Account
- (57) Official Receiver in Voluntary Arrangement Account
- (58) Official Solicitor's Accounts
- (59) Pneumoconiosis Ex Gratia Fund
- (60) Police Children's Education Trust
- (61) Police Education and Welfare Trust
- (62) Police Welfare Fund
- (63) Prisoners' Education Trust Fund
- (64) Prisoners' Welfare Fund
- (65) Quality Education Fund
- (66) Queen Elizabeth Foundation for the Mentally Handicapped
- (67) Research Endowment Fund
- (68) Samaritan Fund
- (69) Secretary for Home Affairs Incorporated Accounts
- (70) Self-financing Post-secondary Education Fund
- (71) Sing Tao Charitable Foundation Students' Loan Fund
- (72) Sir David Trench Fund for Recreation
- (73) Sir Edward Youde Memorial Fund
- (74) Sir Robert Black Trust Fund

- (75) Small Claims Tribunal Suitors' Funds
- (76) Social Work Training Fund
- (77) Statement of Deposits required pursuant to sections 35 and 35A of the Insurance Companies Ordinance
- (78) Subsidized Schools Provident Fund
- (79) Supplementary Legal Aid Fund
- (80) The Legislative Council Commission
- (81) Traffic Accident Victims Assistance Fund
- (82) World Refugee Year Loan Fund

Vision, Mission and Values

Vision

Excellence in public sector auditing

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

Mission

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



Professionalism

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

Independence

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

Innovation

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

Commitment

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

Probity

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.

Objectivity

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

People-oriented

We are committed to creating a work environment which values the professionalism, skills, commitment and creativity of our staff and helps them meet their full potential.

Teamwork

We work as a team to bring out the best in our staff to realise our vision and achieve our mission.

Nurturing talent and creativity

We are committed to helping our staff develop their talents by continuous learning and encouraging creativity.

Key Targets and Indicators

	Unit	Target	2011-12 (Actual)	2012-13 (Revised Estimate)	2013-14 (Plan)
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Regularity Audit

Targets

Number of Director of Audit's Reports submitted to LegCo	Report	1	1	1	1
Time required to certify the statements of accounts of the Government of the HKSAR after the end of each financial year	Month	7	7	7	7

Indicators

Number of accounts certified	Account	81	82	82
Number of man-hours spent	Man-hour	85 165	83 723	90 652
Provision for regularity audit as percentage of total government expenditure	%	0.011	0.011	0.010

Value for Money Audit

Targets

Number of Director of Audit's Reports submitted to LegCo	Report	2	2	2	2
Number of VFM audit reports issued to audited bodies	Report	19	20	19^	19

Indicators

Number of man-hours spent	Man-hour	156 427	161 482	167 936
Provision for VFM audit as percentage of total government expenditure	%	0.023	0.024	0.021

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

Acronyms and abbreviations

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