

**HONG KONG SPECIAL
ADMINISTRATIVE REGION**

Audit Commission

Annual Report 2021-22

**Audit Commission
Hong Kong
August 2022**

AUDIT COMMISSION

ANNUAL REPORT 2021-22

Contents

	Page
Director’s Message	1
Role and work of the Audit Commission	3
Regularity audit	4
Value for money audit	6
Corporate services	7
Looking ahead	10
Appendices	
A : The 86 accounts certified in 2021-22	11
B : Vision, Mission and Values	16
C : Key Targets and Indicators	18
D : Acronyms and abbreviations	19

Director's Message

It is my great honour and pleasure to serve as the Director of Audit starting from July 2022. I am pleased to present my first Annual Report of the Audit Commission for the financial year 2021-22.

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

3. Regularity audits are similar to financial audits in the private sector. In 2021-22, a total of 86 accounts were audited and certified, including all of the accounts of the Government, and the accounts of the Hong Kong Housing Authority, the Exchange Fund, five Trading Funds, the Anti-epidemic Fund (AEF) and more than 60 other funds. The additional workload involved in the audit of AEF was absorbed by redeployment of internal resources. We also perform risk and compliance audits to help ensure that government systems/programmes are operating within the approved ambit and that the spending is incurred in accordance with laid-down policy objectives and conditions. As an integral part of our regularity audit work, risk and compliance audits supplement our normal certification audit work.

4. VFM audits focus on providing independent information, advice and assurance about the economy, efficiency and effectiveness with which the auditees have discharged their functions. We will take into account various factors such as materiality, risk and auditability in selecting subjects for VFM audits. We aim to make value-added recommendations to help the auditees achieve better VFM. In 2021-22, we issued a number of VFM audit reports which attracted considerable public attention.

5. To enhance our experience and knowledge about public sector auditing, we continued to attend conferences and functions of professional bodies amid the Coronavirus Disease 2019 (COVID-19) epidemic. In September 2021, at the invitation of the National Audit Office of the People's Republic of China, two staff attended the 15th Assembly and the 8th Symposium of the Asian Organisation of Supreme Audit Institutions as members of the People's Republic of China Delegation. Both events were held online.

6. Apart from our audit work, amid the fifth wave of the COVID-19 epidemic, we also rendered full support provided to the Government's Restriction-testing Declaration (RTD) operation to find asymptomatic COVID-19 patients as early as possible and to reduce the risk of spreading the virus in the community. As arranged by the Financial Services and the Treasury Bureau (FSTB), the Audit Commission

led the coordination and implementation of an RTD operation in Tsui Mei House, Tsui Ping (North) Estate, Kwun Tong on 22 March 2022. A number of the Commission's officers comprising staff of Auditor, Examiner, Clerical and Secretarial, and Motor Driver grades joined hands with colleagues from the Treasury Branch of FSTB, the Government Logistics Department, the Government Property Agency, and the Rating and Valuation Department to carry out a series of anti-epidemic tasks.

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

8. I am grateful for the continuous support of the Public Accounts Committee of the Legislative Council to our work over the past year. I would like to acknowledge with gratitude the full cooperation and assistance rendered by the auditees. I would also like to thank the former Director of Audit, Mr John Chu, GBS, JP, for his leadership and contributions to the Commission and wish him continued success in his future endeavours. Finally, I would like to express my heartfelt appreciation to my staff for their unfailing support. Their commitment, resilience and professionalism have enabled the Commission to deliver quality audit services to help enhance public sector performance and accountability.

Prof. LAM Chi Yuen Nelson, JP
Director of Audit
August 2022



Role and work of the Audit Commission

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

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

7. ***Organisation of the Audit Commission.*** Audit is made up of six Divisions, namely one Regularity Audit Division, four VFM Audit Divisions, and one Corporate Services Division. As at 31 March 2022, Audit had an establishment of 198 posts. There were 66 posts (33%) in the Auditor grade, 92 posts (47%) in the Examiner grade and 40 posts (20%) in the general and common grades.

Regularity audit

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

9. Regularity audits are conducted in accordance with a programme of work, which is determined annually by the Director of Audit. Audit adopts a risk-based approach to the planning and conduct of regularity audit. Compared with private-sector auditors, we put more emphasis on the regularity and probity aspects due to the statutory duties of the Director of Audit under section 8 of the Audit Ordinance. We supplement our normal certification audit work with a programme of risk and compliance audits, which examines risks related to regularity, propriety and financial control.

The year under review

10. On 10 September 2021, 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 2021 to the President of LegCo.

11. In 2021-22, a total of 86 accounts were audited and certified, i.e. all of the Government's accounts, and the accounts of the Hong Kong Housing Authority, the Exchange Fund, five Trading Funds and 69 other funds (including the Anti-epidemic Fund (AEF) (see para. 12(c))). Appendix A is a list of these 86 accounts.

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

- (a) ***Strengthening our risk and compliance audit programme.*** In view of the increase in the number of government systems/programmes that involved significant spending and transactions, Audit needs to carry out more in-depth reviews or risk and compliance audits on the systems/programmes. Attention has also been given to ensuring that the systems/programmes are operating within the approved ambit and that the spending is incurred in accordance with laid-down policy objectives and conditions. To help ensure regularity, propriety and controls, our efforts have been directed towards auditing/assessing the effectiveness of the bureaux/departments' preventive and detective controls, and follow-up and rectification processes of detected errors and irregularities;
- (b) ***New accounting and auditing standards.*** To maintain convergence with the international standards, the Hong Kong Institute of Certified Public Accountants continues to issue new and revised accounting and auditing standards from time to time. We have deployed resources to implement the new auditing requirements, and to ensure compliance with the new and revised accounting standards by the auditees in preparing their financial statements under accrual basis of accounting; and
- (c) ***Government spending in response to Coronavirus Disease 2019 (COVID-19) epidemic.*** In view of the COVID-19 outbreak, the Government has launched various relief measures with a total approved funding of \$351.5 billion as of February 2022, including \$195.9 billion injected into AEF set up in February 2020. In 2021-22, the Commission

Annual Report 2021-22

audited and certified the accounts of AEF for the period from 21 February 2020 (date of establishment of the Fund) to 31 March 2021. The additional workload involved was absorbed by redeployment of internal resources.

Value for money audit

13. The aim of VFM audits is to provide independent information, advice and assurance about the economy, efficiency and effectiveness with which the auditees (i.e. bureaux/departments of the Government, agencies, other public bodies, public offices or audited organisations) have discharged their functions.

14. VFM audits are carried out under the VFM Audit Guidelines. Like regularity audits, VFM audits are conducted in accordance with the Audit Commission Auditing Standards and a programme of work determined annually by the Director of Audit. Our VFM audits are generally planned and scheduled about one year in advance, after taking into account the availability of our resources as well as factors such as materiality, timing, risk, auditability and value added in selecting subjects for VFM audit. In conducting VFM audits under the VFM Audit Guidelines, the Director of Audit is entitled to exercise the powers given to him under the Audit Ordinance. However, he is not entitled to question the merits of the policy objectives, but he may question the economy, efficiency and effectiveness of the means used to achieve them.

The year under review

15. In 2021-22, two Director of Audit's Reports on the results of a total of 15 VFM audits had been completed. The [Director of Audit's Report No. 76](#) comprising seven subjects was submitted to the President of LegCo in April 2021. In light of the prorogation of the sixth LegCo on 30 October 2021, the normal procedures for submitting the [Director of Audit's Report No. 77](#) to the President of LegCo in October 2021 could not be adopted. The Audit Commission, with the agreement of the President of LegCo, PAC and the Financial Services and the Treasury Bureau (FSTB), deferred the submission of the Report. The Report No. 77 comprising eight subjects was submitted to the President of LegCo in April 2022.

Annual Report 2021-22

16. The PAC selected the following two subjects for public hearing:
- (a) “Highways Department: Maintenance of public footpaths” (Chapter 1 of Report No. 77); and
 - (b) “Safeguarding employees’ rights and benefits under labour laws” (Chapter 6 of Report No. 77).

The PAC also showed great interest and investigated all of the remaining thirteen Chapters of the Director of Audit’s Reports No. 76 and No. 77 by making written enquiries. The PAC examined at length a number of issues raised in the audit reports. The audit conclusions and recommendations were generally accepted by the PAC and the auditees. Like the VFM audit reports issued in past years, some audit subjects in these two reports hit the headlines of newspapers and were widely reported. In general, the comments from the media and the public were supportive of Audit’s findings.

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

Corporate services

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

The year under review

19. In 2021-22, our work on corporate services included:

Annual Report 2021-22

- (a) **Director of Audit's Report production work.** The Director of Audit's Report No. 76 was tabled in LegCo in April 2021. Due to the prorogation of the sixth LegCo on 30 October 2021, the normal procedures for submitting the Report on Government Accounts and the Director of Audit's Report No. 77 to the President of LegCo in October 2021 and tabling the Reports in November 2021 could not be adopted. With the agreement of the President of LegCo, PAC and FSTB, the submission and tabling of the Report on Government Accounts was advanced to September 2021. The submission and tabling of the Director of Audit's Report No. 77 was deferred to April 2022. The Director of Audit's Reports are available on our website at https://www.aud.gov.hk/eng/pubpr_arpt/rpt.htm;
- (b) **Support services.** This work included:
- (i) **Strategic Framework.** The Strategic Framework was last updated in August 2016 and reviewed in August 2019. It sets out the Commission's Vision, Mission and Values (see Appendix B). It also outlines the Commission's strategic objectives, strategies and outcomes in five Key Result Areas. Appendix C shows the key targets and indicators of the Commission. The Strategic Framework is available on our website at https://www.aud.gov.hk/pdf_e/strategic_e.pdf;
- (ii) **Environmental Report.** Starting from 2001, an annual Environmental Report has been issued to help promote environmental protection. The Environmental Report 2021 is available on our website at https://www.aud.gov.hk/eng/otherinfo/info_envrpt.htm;
- (iii) **Media research.** We conducted media research on a daily basis (e.g. newspaper clippings) to keep in view possible audit issues reported in the media. We also collected useful feedback (e.g. media comments and views from the public) on our published VFM audit reports to identify areas of improvement; and
- (iv) **IT support.** Our Departmental IT Plan for the two-year period 2021-22 to 2022-23 was approved by the Director of Audit in October 2021. It was used to monitor the development of IT projects in the Commission;

Annual Report 2021-22

- (c) **External and press relations.** This work included:
- (i) **Public relations work.** In 2021-22, the Director of Audit sent the Association of Hong Kong Accountants a personalised congratulatory remarks which would be showcased in its eighth anniversary celebration to show our support and strengthen our relationship with our professional counterpart;
 - (ii) **Participation in conference.** In September 2021, at the invitation of the National Audit Office of the People's Republic of China, an Assistant Director of Audit and a Senior Auditor attended online the 15th Assembly and 8th Symposium of the Asian Organisation of Supreme Audit Institutions as members of the People's Republic of China Delegation. The Assembly and the Symposium were hosted by the State Audit Office of the Kingdom of Thailand in the midst of the COVID-19 epidemic and participants attended the events using video conferencing software. Our participation was very useful in helping us keep abreast of the developments in public sector auditing, in particular on areas such as the use of advanced technologies in auditing, and disaster and epidemic responses; and
 - (iii) **Receiving the private sector counterparts.** In November 2021, partners from three leading accounting firms, namely Deloitte China, Ernst & Young Hong Kong and KPMG China visited the Commission. They shared with us their views on the latest developments in financial reporting and exchanged views with our staff; and
- (d) **Training and development.** We have made use of the services provided by the Civil Service College to meet the training needs of our staff. Staff are encouraged to apply for courses relevant to their work and personal needs. In-house seminars/workshops are also organised mainly to address the operational needs of the Commission and the personal development of our staff. In November 2021, we invited a speaker from the Civil Service Bureau to deliver a seminar on Chinese writing. A face-to-face seminar was delivered and live broadcast of the seminar using video conferencing software was also provided for outstation staff.

Looking ahead

20. The Commission has a long history of excellence in providing independent, professional and quality audit services to help the Government and public sector organisations enhance public sector performance and accountability. This year marks the Commission's 178th anniversary. Amid the epidemic situation, we need to keep our *modus operandi* under review and suitably adjust our programme of work pursuant to our established criteria. In addition, it is of paramount importance to continue to uphold our values, maintain our independent role, provide quality audit services, maintain effective relation with our stakeholders, interact with our counterparts and develop the potential of our staff to achieve our motto of "excellence in public sector auditing".

The 86 accounts certified in 2021-22

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) Anti-epidemic Fund
- (18) Bankruptcy Estate Account
- (19) Brewin Trust Fund
- (20) Chinese Temples Fund
- (21) Companies Liquidation Account
- (22) Competition Tribunal Suitors' Funds
- (23) Correctional Services Children's Education Trust
- (24) Correctional Services Department Welfare Fund
- (25) Customs and Excise Service Children's Education Trust Fund
- (26) Customs and Excise Service Welfare Fund
- (27) Director of Social Welfare Incorporated Accounts
- (28) District Court Suitors' Funds
- (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) Gifted Education Fund
- (38) Government Flying Service Welfare Fund
- (39) Grant Schools Provident Fund
- (40) Grantham Scholarships Fund
- (41) High Court Suitors' Funds
- (42) HKSAR Government Scholarship Fund
- (43) Hong Kong Court of Final Appeal Suitors' Funds
- (44) Hong Kong Housing Authority
- (45) Hong Kong Rotary Club Students' Loan Fund
- (46) Immigration Service Welfare Fund
- (47) Independent Commission Against Corruption Welfare Fund
- (48) J. E. Joseph Trust Fund
- (49) Kadoorie Agricultural Aid Loan Fund
- (50) Labour Tribunal Suitors' Funds
- (51) Lands Tribunal Suitors' Funds
- (52) Language Fund
- (53) Legal Aid Services Council
- (54) Li Po Chun Charitable Trust Fund

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

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

Vision, Mission and Values

OUR VISION

Excellence in public sector auditing

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

OUR MISSION

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

We achieve our Mission by:

- | | |
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| <ul style="list-style-type: none">- conducting regularity audits which provide the Legislative Council with an overall assurance that the Government's financial and accounting transactions and those of funds of a public or quasi-public nature are proper and that they conform to accepted accounting standards; and | <ul style="list-style-type: none">- conducting value for money audits which provide the Legislative Council with independent information, advice and assurance about the economy, efficiency and effectiveness with which any bureau/department of the Government, agency, other public body, public office, or audited organisation has discharged its functions. |
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OUR VALUES

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



Key Targets and Indicators

	Unit	Target	2020-21 (Actual)	2021-22 (Revised Estimate)	2022-23 (Plan)
Regularity Audit					
Targets					
Number of Director of Audit's Reports submitted to LegCo	Report	1	1	1	1
Time required to certify the statements of accounts of the Government of the HKSAR after the end of each financial year	Month	7	7	7	7
Indicators					
Number of accounts certified	Account		86	86 (Note 1)	86
Number of man-hours spent	Man-hour		107 612	112 486	115 744
Provision for regularity audit as percentage of total government expenditure	%		0.008	0.011	0.009
Value for Money Audit					
Targets					
Number of Director of Audit's Reports submitted to LegCo	Report	2	2	2	2
Number of VFM audit reports issued to audited bodies	Report	17	17	16 (Note 2)	16 (Note 2)
Indicators					
Number of man-hours spent	Man-hour		166 269	163 648	169 938
Provision for VFM audit as percentage of total government expenditure	%		0.015	0.017	0.015

Note 1: As stated in the Government's Estimates of Expenditure 2021-22 of the Audit Commission, the number of accounts to be certified in 2021-22 would be 86. In 2021-22, one fund (namely "Anti-epidemic Fund") was added to the list of accounts certified while another fund (namely "Education Development Fund") was removed from the list.

Note 2: Due to internal redeployment of resources across programme areas to meet the additional workload for certifying the annual accounts of AEF and the impact of COVID-19, it was estimated that the number of VFM audit reports to be issued to audited bodies in 2021-22 and 2022-23 would be reduced by one from 17 to 16.

Acronyms and abbreviations

AEF	Anti-epidemic Fund
Audit	Audit Commission
FSTB	Financial Services and the Treasury Bureau
HKSAR	Hong Kong Special Administrative Region
IT	Information technology
LegCo	Legislative Council
PAC	Public Accounts Committee
RTD	Restriction-testing Declaration
VFM	Value for money