

**HONG KONG SPECIAL
ADMINISTRATIVE REGION**

Audit Commission

Annual Report 2022-23

**Audit Commission
Hong Kong
August 2023**

AUDIT COMMISSION

ANNUAL REPORT 2022-23

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Director's Message

A year has swiftly flown by since I assumed the position of the Director of Audit in July 2022. Over the past year, I have had the honour to lead the Audit Commission in serving the public by means of an array of public sector auditing work, a summary of which is presented in this Annual Report of the Audit Commission for the financial year 2022-23.

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 2022-23, 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 and more than 60 other funds. We also perform risk and compliance audits to help ensure that government systems/programmes are operating within the approved ambit and that the spending is incurred in accordance with laid-down policy objectives and conditions. As an integral part of our regularity audit work, risk and compliance audits supplement our normal certification audit work.

4. VFM audits focus on providing independent information, advice and assurance about the economy, efficiency and effectiveness with which the auditees have discharged their functions. We will take into account various factors such as materiality, risk and auditability in selecting subjects for VFM audits. We aim to make value-added recommendations to help the auditees achieve better VFM. In 2022-23, we issued a number of VFM audit reports which attracted considerable public attention.

5. To enhance our experience and knowledge in public sector auditing, we had attended various conferences and functions organised by professional bodies over the year. In November 2022, at the invitation of the National Audit Office of the People's Republic of China, I attended the 24th Congress of the International Organization of Supreme Audit Institutions in Rio De Janeiro, Brazil as a member of the China Delegation.

6. Voluntary work is another path that leads us deep into the community and serves the public. Our staff actively participated in various voluntary services once the epidemic largely stabilised in early 2023. I highly appreciated their dedication. In 2022-23, our staff formed volunteer teams to take part in a variety of events,

ranging from flag-selling to home visits to the elderly. We are keen to reach out to the community and keep committing ourselves in such meaningful activities in future.

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 our staff develop and grow as professionals. In this regard, various training programmes, such as national studies courses and in-house seminars, are provided to our staff of all levels. We are committed to encouraging and helping our staff realise their full potential through training, learning and sharing.

8. I wish to express appreciation for the continuous support of the Public Accounts Committee of the Legislative Council to our work over the past year. I would also like to acknowledge with gratitude the full cooperation and assistance rendered by the auditees. Finally, I would like to express my sincere thanks to my staff members for their unfailing support. Their dedication, resilience and professionalism have enabled the Commission to deliver quality audit services, which help enhance public sector performance and accountability.

Prof. LAM Chi Yuen Nelson, JP
Director of Audit
August 2023



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 to 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 2023, 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 28 October 2022, 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 2022 to the President of LegCo.

11. In 2022-23, 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 (HKICPA) 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 \$406.5 billion as of February 2023, including \$228.0 billion injected into AEF set up in February 2020. The additional workload

involved in the audit of AEF 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 2022-23, two Director of Audit's Reports on the results of a total of 12 VFM audits were completed. In light of the need for the Government as a whole to concentrate all efforts to fight the COVID-19 epidemic, with the agreement of the President of LegCo, PAC and the Financial Services and the Treasury Bureau (FSTB), Audit deferred the submission of the Director of Audit's Report No. 78. The [Director of Audit's Reports No. 78 and 79](#), comprising four and eight subjects respectively, were submitted together to the President of LegCo in October 2022.

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

- (a) "Licensing services for drivers" and "Management of the development at Anderson Road project" (Chapters 2 and 3 of Report No. 78); and

- (b) “Continuing Education Fund” (Chapter 1 of Report No. 79).

The PAC also showed great interest and investigated all of the remaining nine chapters of the Director of Audit’s Reports No. 78 and 79 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 media and the public were supportive of Audit’s findings.

Corporate services

17. The Corporate Services Division of Audit 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

18. In 2022-23, our work on corporate services included:

- (a) ***Director of Audit’s Report production work.*** The Director of Audit’s Reports No. 78 and 79, together with the Report of the Director of Audit on the Accounts of the Government of the HKSAR for the year ended 31 March 2022, were submitted to the President of LegCo in October 2022 and tabled in LegCo in November 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 2022. It sets out Audit’s Vision, Mission and Values (see Appendix B) and also outlines our strategic objectives, strategies and outcomes in five Key Result Areas. Our key targets and indicators are set out in Appendix C,

while the Strategic Framework in full is available on our website at https://www.aud.gov.hk/pdf_e/strategic_e.pdf;

- (ii) **Media research.** We conducted media research on a daily basis (e.g. compiling 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;
 - (iii) **IT support.** Our Departmental IT Plan for the two-year period 2022-23 to 2023-24 was approved by the Director of Audit in October 2022. It was used to monitor the development of IT projects in Audit; and
 - (iv) **Environmental Report.** Starting from 2001, an annual Environmental Report has been issued to help promote environmental protection. The Environmental Reports are available on our website at https://www.aud.gov.hk/eng/otherinfo/info_envrpt.htm;
- (c) **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 Audit and the personal development of our staff. For example, in-house sharing sessions covering a variety of areas including national studies (e.g. Spirit of the President's Important Speech and Spirit of the 20th National Congress of the Communist Party of China), auditing techniques and language use were held during the year. Apart from that, we also maintain close contacts with the Mainland and overseas audit offices in order to keep abreast of the latest developments in auditing techniques. In March 2023, three Auditor grade staff attended an auditing training programme in Beijing organised by the the National Audit Office of the People's Republic of China (CNAO). Upon the completion of training, one of them was invited by CNAO to take part in an United Nations audit project in New York, USA from April to May 2023 as part of the CNAO audit team;
- (d) **External and press relations.** This work included:
- (i) **Public relations work.** In 2022-23, the Director of Audit attended various functions of professional bodies and local organisations to show his support and dedication to the auditing industry and the

community. For example, he attended an event organised by the Society of Chinese Accountants & Auditors in November 2022, and delivered a presentation on the topic “The role of public sector auditing in enhancing governance”. During all those functions, he had exchanges with the participants through sharing his experience and knowledge about public sector auditing as well as his views on different topics;

- (ii) ***Participation in international conference.*** In November 2022, at the invitation of CNAO, the Director of Audit and a Senior Auditor attended the 24th Congress of the International Organization of Supreme Audit Institutions in Rio De Janeiro, Brazil as members of the People’s Republic of China Delegation. Our participation in the Congress was very fruitful in helping us keep abreast of the developments in international public sector auditing, and providing a good opportunity for us to exchange views and share good practices with overseas counterparts;
- (iii) ***Receiving a delegation from the Liaison Office of the Central People’s Government in the HKSAR.*** In October 2022, a delegation of three members from the Department of Administration and Finance and the Coordination Department, Liaison Office of the Central People’s Government in the HKSAR visited Audit and met with our senior officers. The delegation was led by Mr Li Xuhong, Deputy Director-General of the Department of Administration and Finance. We gave an introduction on our work and exchanged views with the delegation on matters relating to auditing;
- (iv) ***Receiving a delegation of the Audit Office of Guangdong Province.*** In March 2023, a delegation of four officials from the Audit Office of Guangdong Province visited Audit. The delegation was led by Mr Ma Xuebin, Secretary of the Leading Party Members’ Group and Director of the Office. Mr Ma shared the latest situation of audit work in the Mainland, particularly the Guangdong Province, and suggested further deepening the exchange and cooperation of audit work between Guangdong and Hong Kong. The Director of Audit and senior officers had a very constructive exchange of views with the delegation on various topics in auditing during the discussion session; and

- (v) ***Participation in professional accounting forum.*** Since December 2021, Audit has been participating in the Government and Public Sector Support Group, a forum formed under HKICPA for members working in the government and public sector to exchange views and discuss matters of mutual professional interest or concern. A number of meetings were held in 2022-23 to discuss the work plan. In November 2022, a webinar was conducted by a member of the Support Group. In early 2023, Audit's membership in the Support Group was renewed for the term of 2023. According to the 2023 work plan, a Senior Auditor and an Auditor will represent Audit to host a webinar on the topic "*Value for money audit – Enhancing public sector performance and accountability*" in the third quarter of 2023. Audit will also publish a feature article on the subject in HKICPA's magazine; and
- (e) ***Voluntary services.*** Audit showed full support to the Government's appeal to the civil servants for active participation in charity and volunteer events by deploying volunteer teams to reach out to the community:
- (i) in September 2022, our staff together with their families participated in a flag-selling activity held in Wanchai and Admiralty to raise funding for a non-governmental organisation;
 - (ii) in December 2022, Audit sent another volunteer team to provide support to the "Little Life Warrior Society" in organising a Christmas barbecue gathering at the Wu Kai Sha Youth Village for children patients suffering from cancer and severe blood diseases, and those having undergone bone marrow transplants; and
 - (iii) in March 2023, Audit staff joined a volunteer event organised by the St. James' Settlement and paid home visits to the elderly living alone in tiny dwellings in old buildings in Sheung Wan.

Audit had showcased its passion and support to create harmony in the community through participation in charity and volunteer events. Getting in touch with people from all walks of life through these activities, our staff gained a deeper understanding of the needs of members of the public, which enabled them to be more empathetic in delivering public service in their positions.

Looking ahead

19. Audit 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 Audit's 179th anniversary. With the epidemic receding and the society resuming to full normalcy, we will, while adhering to our *modus operandi* which has proven to be effective, suitably adjust our programme of work pursuant to our established criteria in response to the changing environment. 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 2022-23

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

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

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

Vision, Mission and Values

OUR VISION

Excellence in public sector auditing

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

OUR MISSION

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

We achieve our Mission by:

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

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



Key Targets and Indicators

	Unit	Target	2021-22 (Actual)	2022-23 (Revised Estimate)	2023-24 (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	86
Number of man-hours spent	Man-hour		100 969	106 406	114 896
Provision for regularity audit as percentage of total government expenditure	%		0.010	0.009	0.011
Value for Money Audit					
Targets					
Number of Director of Audit's Reports submitted to LegCo	Report	2	1 (Note 1)	3 (Note 1)	2
Number of VFM audit reports issued to audited bodies	Report	16 (Note 2)	8	20	16
Indicators					
Number of man-hours spent	Man-hour		142 121	155 581	165 164
Provision for VFM audit as percentage of total government expenditure	%		0.017	0.015	0.017

Note 1: In light of the COVID-19 epidemic, Audit, with the agreement of the President of LegCo, PAC and FSTB, and the approval of the Chief Executive, deferred the submission of the Director of Audit's Report No. 78 from the original deadline of 7 April 2022 to no later than 31 October 2022 (which is the deadline for submission of Report No. 79).

Note 2: As stated in the Government's Estimates of Expenditure 2023-24 of Audit, the target is revised from 17 to 16 as from 2023.

Acronyms and abbreviations

AEF	Anti-epidemic Fund
Audit	Audit Commission
CNAO	National Audit Office of the People's Republic of China
FSTB	Financial Services and the Treasury Bureau
HKICPA	Hong Kong Institute of Certified Public Accountants
HKSAR	Hong Kong Special Administrative Region
IT	Information technology
LegCo	Legislative Council
PAC	Public Accounts Committee
VFM	Value for money