

CHAPTER 5

**THE GOVERNMENT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION**

GENERAL REVENUE ACCOUNT

GOVERNMENT SECRETARIAT

Finance Bureau

Civil Service Bureau

GOVERNMENT DEPARTMENT

Treasury

**Provision of staff for
Departmental Accounting Units**

PROVISION OF STAFF FOR DEPARTMENTAL ACCOUNTING UNITS

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PROVISION OF STAFF FOR DEPARTMENTAL ACCOUNTING UNITS

Summary and key findings

A. **Introduction.** Departmental accounting units (DAUs) deal with the accounting and financial management matters of government bureaux and departments, and help Controlling Officers discharge their responsibilities under the Public Finance Ordinance (Cap. 2). Audit has recently conducted a review of the provision of staff for DAUs. Audit has found that there is room for improvement in a number of areas (paras. 1.2 and 1.7).

B. **Need for reviews of staff establishment of DAUs based on objective criteria and productivity standards.** In the review of the staff establishment of DAUs, Audit has found that:

- (a) there is scope for improving the process of conducting establishment reviews of DAUs (para. 2.3(a));
- (b) in the creation and ranking of posts in DAUs:
 - (i) the availability of the Treasury's support services was not usually taken into account (para. 2.3(b)(i)); and
 - (ii) there is a need to establish objective criteria and productivity standards for guiding Controlling Officers in assessing the number and ranking of posts required for their DAUs (para. 2.3(b)(ii)); and
- (c) there is scope for performing more reviews of the need for accounting expertise in DAUs (para. 2.3(c)).

C. **Case studies of the provision of staff for DAUs of three departments with significant changes in accounting workload and job complexities.** To illustrate the need to issue guidelines to Controlling Officers for determining the appropriate level of staff for their DAUs, Audit selected the following departments for examining the provision of staff for DAUs:

- (a) ***The Civil Aviation Department (CAD).*** The revenue of the CAD decreased significantly after the opening of the new Hong Kong International Airport in July 1998. Up to 30 September 2000, the CAD had reduced 6% of the permanent establishment of its DAU (para. 3.1(a)); and

- (b) *The Food and Environmental Hygiene Department (FEHD) and the Leisure and Cultural Services Department (LCSD)*. The FEHD and the LCSD were established on 1 January 2000 to take over the activities of the then Urban Services Department and the then Regional Services Department. Up to 30 September 2000, there was an overall reduction of 18% in the staff establishment of their DAUs (para. 3.1(b)).

While there were significant changes in the accounting workload and job complexities of the DAUs of the CAD, the FEHD and the LCSD, there were no supporting data to indicate that the staff establishment of their DAUs was at the appropriate level. Audit considers that there is a need to review the staff establishment of the DAUs of the CAD, the FEHD and the LCSD based on objective criteria and productivity standards (paras. 3.6 and 3.18).

D. **Need to establish a management information system and performance measures.** An audit survey of 72 bureaux and departments in November 2000 indicated that they did not have a management information system for recording the accounting workload of their DAUs and the related staff costs. The audit survey also revealed that most of the bureaux and departments did not have any performance targets and indicators for measuring the productivity of their DAUs. In Audit's view, there is a need for bureaux and departments to establish a management information system and set performance measures for assessing objectively the workload and productivity of their DAUs (paras. 4.2(a), 4.3, 4.5 and 4.6).

E. **Audit recommendations.** Audit has made the following recommendations:

- (a) the Secretary for the Treasury should, in consultation with the Secretary for the Civil Service and the Director of Accounting Services, take positive action to address the financial management needs of government bureaux and departments, especially those with significant financial resources under their control (para. 2.48);
- (b) the Secretary for the Treasury should consider issuing guidelines to Controlling Officers:
- (i) specifying the updated functions and duties of DAUs, and reminding them that they should regularly review the functions and outputs of the DAUs under their control. In doing so, due consideration should be given to the outcome of the review of the Government Financial Management and Information Systems, and the recommendations arising from the review of the Government's Financial Reporting Policy on the need to use accrual accounting in the Government (para. 2.49(a)(i));
 - (ii) advising them that they should ensure that the number and ranking of DAU posts meet the current needs of bureaux and departments (para. 2.49(a)(ii)); and
 - (iii) reminding them that if there is a mismatch between the requirement of services to be provided by a DAU and its existing staff resources, expeditious action should be taken to deal with the mismatch by the creation, deletion or re-grading of posts (para. 2.49(a)(iii));

- (c) the Director of Accounting Services should, in conjunction with the Secretary for the Treasury and the Secretary for the Civil Service, consider establishing objective criteria (e.g. the financial resources controlled by a department and the specific job requirements of the DAU posts) and productivity standards for guiding Controlling Officers in assessing the number and ranking of posts required for their DAUs (para. 2.49(b));
- (d) the Director of Accounting Services should extend the scope of the Treasury's on-going review of the requirement for financial management and accounting expertise to cover more bureaux and departments, taking into account the financial resources controlled by them, the complexity of their accounting work and the support services provided by the Treasury (para. 2.49(c));
- (e) the Director-General of Civil Aviation should, in conjunction with the Director of Accounting Services and the Secretary for the Civil Service, critically review the staff establishment of the DAU of the CAD against the present accounting workload and job complexities, having regard to the transfer of a large part of the CAD's former revenue management and collection functions to the Airport Authority (para. 3.7);
- (f) the Director of Food and Environmental Hygiene and the Director of Leisure and Cultural Services should, in conjunction with the Director of Accounting Services and the Secretary for the Civil Service, critically review the staff establishment of their DAUs against the present accounting workload and job complexities, having regard to the significant changes in the workload and job complexities of their departments (para. 3.19); and
- (g) the Director of Accounting Services should, in conjunction with the Secretary for the Treasury, consider issuing guidelines to Controlling Officers on:
 - (i) the development of a management information system for use by bureaux and departments for recording the workload of each kind of accounting work and the related staff costs (para. 4.7(a)); and
 - (ii) the establishment of performance targets and indicators for measuring the workload and productivity of accounting staff on the different types of accounting work (para. 4.7(b)).

F. **Response from the Administration.** The Director of Accounting Services and the Secretary for the Treasury agree with most of the audit findings and recommendations. The Secretary for the Civil Service has said that he does not dispute the general recommendation to enhance the productivity and cost-effectiveness of DAUs. The Director-General of Civil Aviation has said that there is no immediate need to review the staff establishment of the DAU of the CAD as a whole. The Director of Food and Environmental Hygiene has said that the FEHD will carry out a staffing review of its DAU in the light of further experience. The Director of Leisure and Cultural Services has said that the LCSD will closely monitor the operation of its DAU with a view to providing the most efficient and cost-effective services.

PART 1: INTRODUCTION

Role of Departmental Accounting Units

1.1 Under section 12 of the Public Finance Ordinance (Cap. 2), estimates of expenditure laid before the Legislative Council shall designate a Controlling Officer in respect of each head and subhead. A Controlling Officer shall be responsible and accountable for all expenditure from any head or subhead for which he is the Controlling Officer, and for all public moneys and government property in respect of the department or service for which he is responsible.

1.2 Accounting/Finance Units (hereinafter referred to as departmental accounting units — DAUs) are established in government bureaux and departments to deal with the accounting and financial management matters of government bureaux and departments, and help Controlling Officers discharge their responsibilities under the Public Finance Ordinance. DAUs are mainly engaged in performing the following duties:

- (a) processing of payment vouchers, transfer vouchers, payroll and allowances;
- (b) collection of revenue;
- (c) costing of activities;
- (d) review of fees and charges;
- (e) preparation of revenue and expenditure estimates;
- (f) resource allocation and budgetary control; and
- (g) development and maintenance of accounting systems.

Provision of staff for DAUs

1.3 DAUs are staffed by officers of the Treasury grade (i.e. Treasury Accountants and Accounting Officers), executive grade (i.e. Executive Officers) and clerical grade (i.e. Clerical Officers and Clerical Assistants).

1.4 According to the Standing Accounting Instructions issued by the Director of Accounting Services under section 16 of the Public Finance Ordinance, Treasury grade officers posted to DAUs are responsible to the Director of Accounting Services for:

- (a) ensuring the adequacy of the accounting arrangements with regard to both security and records maintained;
- (b) proposing amendments to the system of accounts; and
- (c) ensuring that all Financial and Accounting Regulations (made by the Financial Secretary under section 11(1) of the Public Finance Ordinance) and Standing Accounting Instructions are complied with by government bureaux or departments.

In all other matters, Treasury grade officers are responsible to the Controlling Officer of the government bureau or department to which they are posted.

1.5 The Director of General Grades of the Civil Service Bureau (CSB) is the head of the executive and clerical grades. However, executive and clerical grade officers of DAUs are responsible to the Controlling Officer/Head of Department (not to the Director of General Grades) for day-to-day matters relating to DAUs.

1.6 In November 2000, Audit conducted a survey of 72 DAUs (17 in bureaux and 55 in departments) and all of them responded to this survey. As at 30 September 2000, these 72 DAUs had 1,833 posts, consisting of 211 Treasury grade officers, 85 executive grade officers and 1,537 clerical grade officers. The total estimated staff cost of these DAUs was \$842 million in 1999-2000.

Audit review

1.7 Audit has recently conducted a review of the provision of staff for DAUs (Note 1). The results of the audit indicate that there is room for improvement in a number of areas. The audit findings are given in Parts 2 to 4 of this report.

Note 1: *The audit review has excluded those staff who are engaged in internal audit and management of stores because their duties are different from those of DAUs. The review has also excluded the accounting units of trading funds (e.g. Companies Registry Trading Fund) and financially autonomous bodies (e.g. Hospital Authority) because they prepare separate accounts and do not use the Treasury's computerised accounting systems.*

PART 2: AUDIT REVIEW OF STAFF ESTABLISHMENT OF DAUs

Background

2.1 Since the late 1940s, it has been the practice to deploy executive and clerical officers to staff DAUs. In 1947, the Salaries Commission considered a proposal of providing a separate accounting service (and a separate clerical service) in order to have specialisation and better standard of accounting work. However, the Commission rejected the proposal on the grounds that junior staff should have an opportunity to perform both clerical and accounting duties.

2.2 In 1953, the Salaries Commission considered a proposal to have two streams of executive officers, one designated as performing accounting duties and the other as performing general duties. The proposal was rejected because professional qualifications were not generally necessary for performing government accounting duties and the split arrangement would affect the efficient running of departments. In 1959, the Salaries Commission maintained its view that executive grade officers should continue to be recruited for both administrative and accounting duties.

Audit findings

2.3 In the review of the staff establishment of DAUs, Audit has found that:

- (a) there is scope for improving the process of conducting establishment reviews of DAUs (see paragraphs 2.4 to 2.12 below);
- (b) in the creation and ranking of posts in DAUs:
 - (i) the availability of the Treasury's support services was not usually taken into account (see paragraphs 2.16 to 2.20 and 2.24 to 2.25 below); and
 - (ii) there is a need to establish objective criteria and productivity standards for guiding Controlling Officers in assessing the number and ranking of posts required for their DAUs (see paragraphs 2.23 and 2.26 to 2.29 below); and
- (c) there is scope for performing more reviews of the need for accounting expertise in DAUs (see paragraphs 2.30 to 2.47 below).

Staffing level of DAUs

Staffing structure of DAUs after the implementation of the Ledger Accounting and Financial Information System in the 1980s

2.4 Since the implementation of the Ledger Accounting and Financial Information System (LAFIS) in 1983, there had been an increase in the use of Treasury grade officers in DAUs. As at 30 September 2000, Treasury grade officers were deployed in 38 out of 72 DAUs.

Growth in staff establishment of DAUs

2.5 In the past years, accounting posts have been created by bureaux and departments due to the increasing complexity of the accounting systems and the growing demand for management information. The staffing level of DAUs is determined by bureaux and departments subject to the availability of financial resources. As a result, the number of staff of DAUs varies widely among departments, ranging from 1 officer to 137 officers. The staffing level of the 72 DAUs as at 30 September 2000 is shown in Table 1 below.

Table 1

**Staffing level of 72 DAUs
as at 30 September 2000**

| Number of staff in the DAU | Bureaux | Number of Departments |
|---------------------------------------|----------------|----------------------------------|
| 1 to 10 | 12 | 18 |
| 11 to 20 | 5 | 11 |
| 21 to 30 | – | 6 |
| 31 to 40 | – | 4 |
| 41 to 50 | – | 5 |
| 51 to 60 | – | – |
| 61 to 70 | – | 2 |
| 71 to 80 | – | 3 |
| 81 to 90 | – | 2 |
| 91 to 100 | – | – |
| Over 100 | – | 4 |
| Total | 17 | 55 |

Source: Treasury's records and Audit's survey of bureaux and departments in November 2000

2.6 During the period 1 April 1992 (Note 2) to 30 September 2000, the total number of Treasury grade officers in the 72 DAUs had increased by 59%, and the total number of executive and clerical grade officers had increased by 16% and 18% respectively. Many Treasury grade posts were created in bureaux and departments to provide financial management support. A comparison of the staff establishment as at 1 April 1992 and 30 September 2000 is shown in Table 2 below.

Table 2
Comparison of staff establishment of the 72 DAUs
as at 1 April 1992 and 30 September 2000

| Grade | Staff establishment as at | | Increase in number of staff | Percentage increase |
|--------------------|---------------------------|---------------------|--------------------------------|--------------------------------------|
| | 1 April 1992 | 30 September 2000 | | |
| | (a) | (b) | (c) = (b) - (a) | (d) = $\frac{(c)}{(a)} \times 100\%$ |
| Treasury grade | 133 | 211 | 78 | 59% |
| Executive grade | 73 | 85 | 12 | 16% |
| Clerical grade | 1,300 | 1,537 | 237 | 18% |
| Total | <u>1,506</u> | <u>1,833</u> | <u>327</u> | 22% |

Source: Treasury's records and Audit's survey of bureaux and departments in November 2000

Monitoring of staffing level and establishment reviews

2.7 Financial Circular Nos. 7/81 of March 1981 (Note 3) and 9/83 of March 1983 set out the arrangements for Controlling Officers, under delegated authority, to make certain changes to departmental establishment. This delegation of authority was subject to regular in-depth reviews of departmental establishment. The findings of the reviews would be submitted to the Establishment Sub-Committee (ESC) of the Finance Committee (FC) for agreement.

Note 2: 1 April 1992 was the earliest date with readily available data on the staff establishment of DAUs.

Note 3: Financial Circular No. 7/81 was superseded by Financial Circular No. 9/83 in March 1983.

2.8 According to Financial Circular Nos. 7/81 of March 1981 and 11/83 of April 1983, the purpose of establishment reviews was to determine the establishment that was necessary to enable a department to carry out its responsibilities efficiently and effectively. In effect, the reviews would ascertain, in terms of the complement and ranking of posts, the correct establishment for the department. From 1981 to 1985, the Finance Bureau (FB) conducted 23 establishment reviews covering 20 departments.

2.9 In December 1985, the FB informed the Public Accounts Committee (PAC) that it proposed to carry out an enhanced programme of value for money studies in lieu of establishment reviews. In early 1986, Financial Circular Nos. 9/83 and 11/83 were cancelled. In September 1993, the Management Services Agency was established to provide management consultancy services to government bureaux and departments and conduct value for money studies on selected activities of bureaux and departments. However, according to Financial Circular Nos. 6/86 of April 1986, 4/92 of February 1992 and 4/94 of February 1994 (Note 4), Controlling Officers are still required to constantly monitor the establishment to ensure:

- (a) that a post is deleted as soon as the need for it no longer exists and the opportunity of absorbing the incumbent elsewhere arises; and
- (b) that opportunities for the redeployment of staff are fully utilised.

Audit observations on the staffing level of DAUs

Establishment reviews conducted by bureaux and departments

2.10 As indicated by Table 2 in paragraph 2.6 above, the staff establishment of the 72 DAUs increased by 22% from 1,506 in April 1992 to 1,833 in September 2000. In the survey conducted in November 2000, Audit asked Controlling Officers whether establishment reviews of DAUs had been carried out from 1991-92 to 1999-2000, in accordance with the requirements of Financial Circular Nos. 6/86, 4/92 and 4/94 (see paragraph 2.9 above). The survey results are as follows:

- (a) 52 bureaux and departments (72%) indicated that they had conducted establishment reviews in connection with the creation and deletion of posts in DAUs. Of these 52 bureaux and departments:

Note 4: *Financial Circular No. 6/86 was superseded by Financial Circular No. 4/92 in February 1992. In February 1994, Financial Circular No. 4/92 was superseded by Financial Circular No. 4/94 which is still in force.*

- (i) 16 bureaux and departments (22%) had conducted one establishment review;
 - (ii) 9 bureaux and departments (13%) had conducted two establishment reviews; and
 - (iii) 27 bureaux and departments (37%) had conducted three or more establishment reviews; and
- (b) 20 bureaux and departments (28%) indicated that they had not conducted any establishment review.

2.11 Audit found that, in reviewing and determining the staff establishment of their DAUs, all these bureaux and departments had used workload and job complexity as the main criteria. However, Audit also found that quantifiable measures (such as performance targets and indicators or manning scales) had not been used by the bureaux and departments in assessing the workload, and the level and number of accounting staff of their DAUs. **In Audit's view, there is scope for improving the establishment reviews. There is also a need for Controlling Officers to regularly review the staff establishment of their DAUs having regard to changes in accounting workload, advancement in technology and potential for simplification of accounting processes.** In this connection, Audit noted that, as an example of simplifying the work process, the Treasury had recently revamped its Payment and Receipt Examination Unit by dispensing with the double-checking of payment vouchers in the Treasury. This resulted in an annual saving of \$9 million in staff cost.

2.12 Audit also could not find available information from the relevant Departmental Establishment Committee (DEC) papers which showed that the ranks and number of Treasury grade officers, executive grade officers and clerical grade officers in a DAU were in any way related to the financial resources under the control of the bureaux or departments concerned. Furthermore, little information was provided by bureaux or departments in the DEC papers (see paragraph 2.15 below), or the Controlling Officers' Reports of the Annual Estimates on the cost-effectiveness, productivity and performance of the DAUs in terms of the number of staff engaged, the quantity of outputs produced, and the DAUs' contributions towards meeting departmental targets.

Creation and ranking of posts in DAUs

Authority for creation of posts

2.13 The authority for the creation of established posts in the civil service rests with the Legislative Council. The FC, a Standing Committee of the Legislative Council, is charged with examining and approving all proposals involving expenditure from public funds.

2.14 The FC, under section 8 of the Public Finance Ordinance, has delegated to the Financial Secretary certain powers relating to the creation of posts. The Financial Secretary has, in turn, further delegated the authority to Controlling Officers to create permanent non-directorate posts provided that the establishment ceiling is not exceeded. Proposals for the creation of permanent directorate posts are required to be submitted to the FC for approval.

2.15 To assist a Controlling Officer in the exercise of his delegated authority, a DEC is set up in each department to advise the Controlling Officer on any matters relating to the departmental establishment. According to Financial Circular No. 4/94, the following information should be provided in the DEC papers on the creation of posts:

- (a) changes in workload and performance standards;
- (b) cost and revenue implications;
- (c) consultation with bureaux/departments and other bodies; and
- (d) alternatives considered.

Support services provided by the Treasury

2.16 The Treasury is responsible for providing accounting and financial support services to bureaux and departments through the following two programmes:

- (a) *Central accounting, collections and payments.* Under this programme, the Treasury:
 - (i) compiles the accounts of the Government including the main accounts and a number of special funds;
 - (ii) serves as the Government's central paymaster in respect of goods and services supplied and subventions;
 - (iii) provides a centralised collection service in respect of rates, water and sewage charges, government rents, land premium and other demand notes; and

- (iv) examines receipt records and payment authorisations of departments to ensure that all public moneys received and paid are promptly and properly brought to account; and
- (b) *Accounting and financial information systems.* Under this programme, the Treasury:
 - (i) maintains the Government Financial Management and Information Systems (GFMIS) which include the central general ledger (providing financial information for the budgetary control of expenditure and revenue, and for the production of government accounts) and other accounting systems to assist departments to determine the cost of their operations and better manage the resources at their disposal; and
 - (ii) operates other government-wide accounting systems such as the Payroll System and the Payment of Creditors System (POCS) and supports departmental financial systems.

Financial management services

2.17 The Accounting Services Branch of the Treasury, headed by an Assistant Director of Accounting Services, provides a range of financial support services to bureaux and departments to ensure that there are proper systems of financial control in the Government. As at 30 September 2000, the Accounting Services Branch had an establishment of 74 staff.

2.18 In January 1985, the Chairman of the PAC, in his speech delivered when tabling Report No. 7 of the PAC in the Legislative Council, urged the Government to inculcate a greater sense of financial awareness in managers in the Government. In response, the then Chief Secretary said that:

- (a) steps were continually being taken to develop better financial management within the Government and that further improvements would continue to be the Government's aim; and
- (b) the objective was to make Controlling Officers more aware of their financial responsibilities and the role they were meant to play, and to equip them with an improved capability to monitor expenditure through the provision of improved financial information and better professional accounting support.

2.19 In May 1986, the Treasury established the Financial Management Services Division (FMSD) in its Accounting Services Branch. The objectives of the FMSD are:

- (a) to provide advice and support to departmental accountants to develop their financial management skills and, as a result, to further improve their contribution to the management of the departments;
- (b) to provide a “consultancy” service to government departments for the implementation of improved financial systems; and
- (c) to develop, in conjunction with the Civil Service Training and Development Institute, training courses on financial management for directorate and other senior officers.

System support services

2.20 The FMSD develops and maintains a number of accounting and financial management information systems for the use of bureaux and departments to enable them to deliver their accounting services. In 1999-2000, the system support services were provided at a cost of about \$145 million. The main systems developed/maintained by the FMSD are as follows:

- (a) **LAFIS.** It serves as a general ledger of the Government. It records, analyses and reports financial data for the purposes of financial accounting, management accounting and budgetary control;
- (b) **LAFIS Departmental Reporting System.** It is a sub-system of LAFIS which aims at strengthening the budgetary controls of bureaux and departments by:
 - (i) making computerised accounting and financial management support available to more officers in bureaux and departments; and
 - (ii) delegating more financial responsibilities to cost centre managers instead of the staff of the DAUs; and
- (c) **Departmental Financial Management System.** It assists departments to discharge their financial management responsibilities. It comprises the following three sub-systems:

- (i) ***Departmental Costing System.*** It determines the annual operating costs of a department and provides further analysis of the costs of functional cost centres. These costs can be aggregated to arrive at totals for user-defined programmes or activities. The main use of this sub-system is for the review of fees and charges;
- (ii) ***Programme Management System.*** It assists departments in the production of reports for the quarterly progress review under the programme management system. It facilitates the analysis of estimates, actual expenditure and performance statistics by programme and activity; and
- (iii) ***Resource Management System.*** It enables departments to analyse the estimated and actual expenditure by programme or activity in a more timely manner.

Departmental surveys

2.21 In 1999-2000, the FMSD started a programme of conducting departmental surveys of bureaux and departments. The objectives of the surveys are:

- (a) to ensure that there are adequate internal control procedures and systems in bureaux and departments; and
- (b) to provide assurance to the Director of Accounting Services that his duties (as prescribed in the Public Finance Ordinance concerning the management of accounting operations and procedures within the Government, and the compliance with the relevant regulations or instructions) are properly discharged.

2.22 To meet the objectives of the survey, the FMSD planned to carry out a comprehensive and in-depth evaluation of the internal control procedures and systems in bureaux and departments so as to obtain reasonable assurance of the adequacy of the controls and to make recommendations where appropriate. In 1999-2000, the FMSD completed the surveys of the Information Technology and Broadcasting Bureau, the Labour Department and the Standing Commission on Civil Service Salaries and Conditions of Service. It intended to complete the surveys of all bureaux and departments by 2003-2004. Thereafter, each bureau or department will be surveyed once every four years.

Ranking support given by the CSB and the Treasury

2.23 For any proposed creation of posts, or changes to the duties and responsibilities of DAU posts, Controlling Officers are required to consult and obtain the ranking support and prior

agreement of the appropriate Heads of Grade (i.e. the Director of General Grades of the CSB for executive and clerical grade officers, and the Director of Accounting Services for Treasury grade officers). The Heads of Grade are responsible for:

- (a) ensuring that the proposed posts are appropriate for the grade and rank concerned;
- (b) ensuring that the grade structure, strength and experience remain healthy and capable of carrying out the tasks demanded; and
- (c) arranging posting of staff to the bureaux or departments after ranking support has been given.

Audit observations on the creation and ranking of posts in DAUs

Treasury's support services were not usually taken into account

2.24 In the audit survey in November 2000, Audit asked 72 bureaux and departments to provide the criteria they used in reviewing the staff establishment of their DAUs. In response, only one department indicated that it took into account the accounting and financial support services of the Treasury in reviewing the establishment of its accounting staff.

2.25 **In Audit's view, as the Treasury has considerable resources earmarked for providing support services (see paragraphs 2.16 to 2.20 above) which are aimed at assisting bureaux and departments to deliver their accounting services, Controlling Officers should take into account the availability of these support services in determining the staffing requirement of their DAUs. It is also important for the Treasury and the CSB to take due account of the Treasury's support services when giving their ranking support for the creation of posts in DAUs.**

Need to establish objective criteria and productivity standards

2.26 As mentioned in paragraph 2.23 above, ranking support is required for the creation of posts. The ranking support of the Treasury and the CSB was mainly given on the basis of the justifications stated in the DEC papers or the ESC papers. In this connection, Audit noted that the Treasury, when giving ranking support for the creation of posts of an Accounting Officer I and an Accounting Officer II in the Housing Department in May 1984, used a points-rating system to assess the ranking of the posts based on a set of criteria (i.e. education, experience, supervisory responsibility, decision making, supervision required, work complexity, contacts, creative work and reports). The Treasury had not used this points-rating system to assess the ranking of the accounting posts in the past five years.

2.27 In response to Audit's enquiry, the Treasury has informed Audit that it has established a comprehensive set of core competencies (e.g. professional/accounting competence and organisational knowledge) for all Treasury grade officers. These are the guidelines that are used to determine the ranking support to DAUs' proposals for Treasury grade officers.

2.28 **In Audit's view, the core competencies are an officer's personal attributes and are mainly used for the purpose of assessing the performance of his duties. Audit considers that, in addition to the core competencies used by the Treasury to determine ranking support, there is a need to establish objective criteria and productivity standards to assist Controlling Officers to determine the number and ranking of posts required for their DAUs. In giving ranking support for the creation of new accounting posts or the upgrading of posts, it is necessary to examine critically the justifications for the proposal, paying particular attention to the proposed ranking of the posts. Furthermore, in assessing the ranking support for DAU posts, it is necessary to take into account the following factors:**

- (a) the size of revenue and expenditure of the bureau or department;
- (b) the staffing structure and level of the DAU;
- (c) the nature, variety and complexity of the accounting work;
- (d) the types and level of professional skills, knowledge and experience to meet the job requirements of specific accounting functions (e.g. financial management and cost accounting); and
- (e) the level of responsibilities to be assumed by the officers of that rank in discharging the required duties.

2.29 **In Audit's view, establishing objective criteria and productivity standards to guide Controlling Officers in the creation of DAU posts can help ensure that:**

- (a) **all the relevant factors are taken into consideration; and**
- (b) **a consistent ranking basis is applied to the staffing proposals for the DAUs of different bureaux and departments.**

Need for accounting expertise in DAUs

Review of the executive grade by the CSB

2.30 In September 1990, the CSB appointed a Working Group to review the management and development of the executive grade, including the use of executive grade officers for performing accounting functions. The Working Group recommended that:

- (a) departmental accounting duties which formed part of internal departmental administration should fall within the role and functions of the executive grade;
- (b) accounting functions which required the application of professional accounting knowledge (e.g. those with a large interface with the private or subvented sector) should be performed by Treasury grade officers; and
- (c) Heads of Department should follow the above principles in the creation of new accounting posts and rationalisation of existing posts. In case of uncertainty, the posts should be filled by Executive Officers until there was sufficient justification for the use of Treasury grade officers.

2.31 The Director of Accounting Services did not agree with the recommendations of the Working Group. In May 1991, he informed the Secretary for the Civil Service that:

- (a) the Working Group's view that "departmental accounting duties formed part of internal departmental administration" was narrow and incorrect;
- (b) most professional officers in the Government performed some administrative duties. The suggestion that the duties of Treasury Accountants should be confined to those which required professional knowledge, and that "departmental accounting duties" should be performed by an Executive Officer, would be a wasteful use of resources; and
- (c) there was a continuing and urgent need for the Director of Accounting Services to upgrade and improve the accounting input in departments and there was further pressure in this regard from the PAC and the Legislative Council.

2.32 Because of the difference in views between the CSB and the Treasury, no formal guidelines have been issued on the staffing structure of DAUs. The question of whether to create executive grade posts or Treasury grade posts in the DAUs is decided by the Controlling Officers. A summary of the different grades of officers deployed in 72 DAUs as at 30 September 2000 is shown in Table 3 below.

Table 3

**Treasury, executive and clerical grade officers
deployed in 72 DAUs as at 30 September 2000**

| Grade | Number of DAUs | Percentage of total DAUs |
|--|-----------------------|-------------------------------------|
| Treasury, executive and clerical grades | 16 | 22% |
| Treasury and clerical grades | 22 | 31% |
| Executive and clerical grades | 31 | 43% |
| Clerical grade | <u>3</u> | <u>4%</u> |
| Total | <u>72</u> | <u>100%</u> |

Source: Audit's survey of bureaux and departments in November 2000

Recent views of the CSB and the FB

2.33 At a regular meeting of the CSB/FB Liaison Group held in December 1999, the subject of replacing the Executive Officer posts by Treasury grade posts was discussed. The following information was provided in the discussion paper prepared by the FB for the Liaison Group's consideration:

- (a) from the point of view of improving the Government's financial management and accounting standards, the FB considered that it was beneficial for departmental financial and accounting matters to be consistently managed by Treasury grade officers with professional qualifications and post-employment training and exposure;
- (b) there were two government initiatives which might require enhanced accounting knowledge and skills in departments:

- (i) a review of the GFMIS was being undertaken by the Treasury. This review might result in the replacement of LAFIS. One of the main areas to be examined in the review was whether the future GFMIS should be a centralised or decentralised system. The speed of rolling out a new system and the adoption of a more decentralised system would depend on the availability of expertise in departments, in terms of both information technology and accounting knowledge; and
 - (ii) recommendations arising from the review of the Government's Financial Reporting Policy by a Task Force, chaired by the Secretary for the Treasury, might have impact on the financial and accounting capability of departments (see paragraphs 2.40 to 2.43 below);
- (c) both developments mentioned in sub-paragraph (b) above would not bring about imminent changes. However, the FB had been discussing with the Treasury the issue of ensuring that departments were equipped with adequate accounting expertise to carry out such new initiatives. The constraint was that there were bureaux and departments which did not have Treasury grade officers; and
- (d) for bureaux and departments without Treasury grade officers, the work of checking and signing off costing exercises rested with the Treasury. In the event of fee revisions, the onus of explaining and clarifying costings to the Legislative Council was often placed on the FB owing to the lack of financial and accounting expertise in those bureaux and departments. This was not entirely satisfactory.

2.34 The discussion paper proposed that:

- (a) in replacing Executive Officer posts with Treasury grade posts, the first priority should be posting Treasury grade officers to head the finance units in bureaux and departments which did not have Treasury grade officers;
- (b) for bureaux and departments in which non-Treasury grade officers were performing mixed duties including accounting duties (because they were too small to justify having separate accounting staff), if new initiatives like departmental resource accounting or new financial management information systems were introduced in future, support might need to be provided by the Treasury; and

- (c) there appeared to be no imminent need to replace the executive grade officers performing accounting duties in DAUs which were already headed by Treasury grade officers. Depending on the overall staffing situation in the grades concerned and the developments in financial reporting policies and accounting standards, replacement might be desirable in future.

2.35 In December 1999, the FB obtained the CSB's agreement in principle to replace Executive Officer posts with Treasury grade posts in those departments which did not have Treasury grade posts, on the understanding that the replacements would be justified on the basis of service needs rather than as part of an extensive re-grading exercise. The Secretary for the Treasury requested the Director of Accounting Services to initiate discussion with departments to assess their need for financial and accounting expertise, and the actual requirements of Treasury grade posts if the Executive Officer posts were to be replaced.

Treasury's reviews of DAUs

2.36 In late 1999, the Treasury wrote to the Government Property Agency (GPA), the Fire Services Department (FSD), the Information Services Department (ISD) and the Immigration Department seeking their agreement for the Treasury to conduct a review of their requirement for financial management and accounting expertise.

2.37 In December 1999, the GPA and the FSD informed the Treasury that they agreed with its invitation for a review. However, the ISD and the Immigration Department declined the Treasury's invitation. The following comments were given:

- (a) the Director of Information Services said that the ISD was responsible for retail revenue from the sale of government publications. The process and procedure concerned were rather simple and straightforward, and were being managed at the Information Officer/Assistant Information Officer and clerical officer level. The ISD might require the Treasury's expert advice, probably in a couple of years' time, when the ISD would review the work of the Publicity Division; and
- (b) the Director of Immigration said that for the past years, the Immigration Department's financial management had been effective. He did not see the need for the expertise of Treasury grade officers at that time. However, he would review the situation and seek the Treasury's advice if there was such a need in future.

2.38 By August 2000, the Treasury completed the review of the need for accounting expertise in the GPA and the FSD. The review found that there was scope for the DAUs of both departments to play a more important role in providing financial advice and information and setting standards for their staff to follow. The Treasury recommended the GPA and the FSD to consider replacing the executive grade posts of their DAUs with Treasury grade posts.

2.39 In November 2000, the Government Property Administrator agreed to consider the Treasury's proposal. In February 2001, the Director of Fire Services said that the FSD would examine the recommendations made by the Treasury with a view to improving its financial management and control.

Publication of accounts prepared on an accrual basis from 2002-03

2.40 In 1999, in view of the development of improved government financial reporting in developed countries, and the increasing public demand for public accountability for the use of government resources, Audit conducted a review of the financial reporting framework of the Government. In the Director of Audit's Report No. 33 of October 1999, Audit reported that the Government's cash-based financial reporting could not reflect the total resources consumed by departments, show the use of physical assets or record future liabilities. Audit recommended that the Secretary for the Treasury should expedite action on deciding whether or not to adopt accrual accounting in the Government and, if in the affirmative, draw up a definite timetable of implementation.

2.41 In its Report No. 33 of February 2000, the PAC noted that a Task Force chaired by the Secretary for the Treasury was set up in April 1999 to review the Government's Financial Reporting Policy and to look afresh at the use of accrual accounting in the Government. The Task Force would seek and take into account the opinions of the parties concerned in determining the way forward. In its Report No. 35 of February 2001, the PAC asked to be informed of further progress of the Task Force's review and the actions taken on the review of the financial reporting of the Government.

2.42 The Task Force submitted its review report to the Financial Secretary in 2000. The Financial Secretary, in his 2001-02 Budget Speech in March 2001, announced that from 2002-03, the Administration would publish two separate sets of Annual Accounts of the Government, one under the existing cash accounting convention and the other prepared on an accrual basis.

2.43 Since accrual accounting requires the reporting of assets and liabilities and gives more information in respect of the Government's investments in public corporations, fixed assets and financial obligations (e.g. Civil Service Pension Schemes), more accounting expertise will be required by the staff of DAUs.

Audit observations on the need for accounting expertise in DAUs

2.44 Audit notes that DAUs are responsible for maintaining books and accounts, receipts and payments of cash, preparing the annual estimates, carrying out departmental costing exercises, revision of fees and charges, and handling all other departmental accounting matters. As at 30 September 2000, 38 out of 72 DAUs were staffed by Treasury grade officers.

2.45 Until the early 1980s, it was the Government's practice to deploy executive and clerical grade officers to staff DAUs. With the increasing use of Treasury grade officers by bureaux and departments since the implementation of LAFIS in 1983, the FB, the CSB and the Treasury had considered the relative merits of using executive grade officers and Treasury grade officers to staff DAUs. In December 1999, the FB obtained the CSB's agreement in principle with the proposal of replacing Executive Officer posts with Treasury grade posts in those departments which did not have Treasury grade posts, on the understanding that it was justified on service needs rather than as part of an extensive re-grading exercise. Up to December 2000, of the 34 DAUs which did not have Treasury grade officers, the Treasury had reviewed the staffing requirements of the DAUs of the GPA and the FSD.

2.46 **In view of the current development of the two major government initiatives which will require enhanced accounting knowledge and skills (i.e. the review of the GFMS and the major change of the Government's Financial Reporting Policy — see paragraphs 2.33(b) and 2.42 to 2.43 above), the Treasury is likely to have a more significant role to play in assisting bureaux and departments to assess their need for financial management and accounting expertise.**

2.47 **In Audit's view, the replacement of Treasury grade officers by executive grade officers, or vice versa, should be justified on service needs. To enable bureaux and departments to ascertain the level and number of staff with enhanced financial and accounting expertise that are required by them, there is a need for Controlling Officers to regularly review, and define clearly the functions and expected outputs of DAUs under their control. To assist Controlling Officers in carrying out the reviews, the scope of the Treasury's on-going exercise of reviewing the requirement for financial management and accounting expertise needs to be further extended to cover more bureaux and departments, especially those which control a significant amount of financial resources but do not have Treasury grade officers in their DAUs.**

Audit recommendations on the staff establishment of DAUs

2.48 **Audit has recommended that the Secretary for the Treasury should, in consultation with the Secretary for the Civil Service and the Director of Accounting Services, take positive action to address the financial management needs of government bureaux and departments, especially those with significant financial resources under their control.**

2.49 **Audit has also recommended that:**

- (a) **the Secretary for the Treasury should consider issuing guidelines to Controlling Officers:**
 - (i) **specifying the updated functions and duties of DAUs, and reminding them that they should regularly review the functions and outputs of the DAUs under their control. In doing so, due consideration should be given to the outcome of the review of the GFMIS, and the recommendations arising from the review of the Government's Financial Reporting Policy on the need to use accrual accounting in the Government (see paragraph 2.42 above);**
 - (ii) **advising them that they should ensure that the number and ranking of DAU posts meet the current needs of bureaux and departments; and**
 - (iii) **reminding them that if there is a mismatch between the requirement of services to be provided by a DAU and its existing staff resources, expeditious action should be taken to deal with the mismatch by the creation, deletion or re-grading of posts;**
- (b) **the Director of Accounting Services should, in conjunction with the Secretary for the Treasury and the Secretary for the Civil Service, consider establishing objective criteria (e.g. the financial resources controlled by a department and the specific job requirements of the DAU posts — see paragraph 2.28 above) and productivity standards for guiding Controlling Officers in assessing the number and ranking of posts required for their DAUs; and**
- (c) **the Director of Accounting Services should extend the scope of the Treasury's on-going review of the requirement for financial management and accounting expertise to cover more bureaux and departments, taking into account the financial resources controlled by them, the complexity of their accounting work and the support services provided by the Treasury.**

Response from the Administration

2.50 The **Secretary for the Treasury** has said that the object of the Treasury's reviews of DAUs is to improve the Government's financial management and accounting standards. In the light of experience over the last year, she agrees that there is a need for a more systematic approach and for more proactive efforts. She has also said that:

- (a) there will be considerable difficulties in developing uniform guidelines which would adequately suit the divergent operational needs of individual departments. The departmental surveys already being undertaken by the Treasury would enable her to identify on an informed basis those departments which require more in-depth review of the staff establishment of their DAUs;
- (b) she fully agrees that, having regard to their professional expertise and experience, Treasury grade officers have an important role to play in conducting in-depth reviews and, as appropriate, putting forward recommendations for improvement; and
- (c) Controlling Officers are accountable for the operation of their departments and for deciding how the resources allocated to them should best be deployed. It is not within the power of the Director of Accounting Services to create, delete or re-grade posts in a DAU. Such matters are the responsibility of Controlling Officers after taking into account the overall departmental operational needs and the availability of resources.

2.51 The **Director of Accounting Services** has said that there should be sufficient financial and accounting expertise in all government bureaux and departments to manage their finance and accounting operations. He has also said that:

- (a) the Controlling Officer is accountable for the outcome of his departmental operations and therefore he should be given the authority to decide how his department should be managed. The role of a DAU is what an individual Controlling Officer wishes it to be;
- (b) while he is happy to provide any advice, Controlling Officers should have the final say on the deployment of resources in their departments including the DAUs;
- (c) one of the objectives of the Treasury's departmental surveys is to assess if there are adequate accounting arrangements in government bureaux and departments. During the process, the need to strengthen the DAU, if that is the case, will become apparent. In those circumstances, the Treasury will follow up with a staffing review and accordingly provide appropriate advice to Controlling Officers. It is the intention of the Treasury to visit a bureau or department once every four years;
- (d) bureaux and departments should carry out reviews to assess the job contents of accounting posts of their DAUs with a view to ensuring that the ranking of posts meets their needs; and

- (e) it is the responsibility of the relevant Controlling Officer to create, delete or re-grade posts in a DAU. He will give support to the Controlling Officer in the form of ranking advice and deployment or redeployment of Treasury grade officers if required.

2.52 The **Secretary for the Civil Service** has said that Controlling Officers are responsible for deciding on the staff they need to employ, as they are ultimately accountable for the operations of their departments, and for the resources they control. He has also said that:

- (a) the present variations in the staffing of the 72 DAUs clearly indicate the divergent operational needs; and
- (b) the proposal of replacing Executive Officer posts with Treasury grade posts (see paragraph 2.35 above) was prompted in part by the likely surplus of Treasury grade staff at that time arising from the reorganisation of the Housing Department, and the proposal would help alleviate that problem. However, this is no longer a major consideration.

2.53 The **Government Property Administrator** has said that he has no comments on the audit observations mentioned in paragraphs 2.36 to 2.39 above.

2.54 The **Director of Fire Services** has said that there are certain accounting jobs, such as costing and fees revision exercises for which the professional advice of Treasury grade officers is being sought where necessary. The FSD keeps an open mind on the use of appropriate grades of staff for its DAU and will review the long-term requirement for Treasury grade officers when such a need arises.

2.55 The **Director of Information Services** has said that he remains open-minded as to how DAUs should be staffed to ensure the cost-effectiveness and proper management of departmental financial and accounting matters.

2.56 The **Director of Immigration** has said that his comments on the performance of his DAU (see paragraph 2.37(b) above) should not be taken as the reason why the Director of Accounting Services was not invited to conduct the review. It should be taken as an indication of the effective performance of executive grade officers in managing the financial resources of a large department. He has also said that the staffing requirements of a DAU should be determined by service requirements. It should be left to Heads of Department to decide whether there are any needs to initiate discussion with the Director of Accounting Services on their needs for financial and accounting expertise having regard to their individual circumstances.

PART 3: CASE STUDIES OF THE PROVISION OF STAFF FOR DAUs OF THREE DEPARTMENTS

3.1 To illustrate the need to issue guidelines to Controlling Officers for determining the appropriate level of staff for their DAUs, Audit selected the following departments for examining the provision of staff for DAUs:

- (a) *The Civil Aviation Department (CAD)*. The revenue of the CAD decreased significantly after the opening of the new Hong Kong International Airport in July 1998. Up to 30 September 2000, the CAD had reduced 6% of the permanent establishment of its DAU (see paragraphs 3.2 to 3.7 below); and
- (b) *The Food and Environmental Hygiene Department (FEHD) and the Leisure and Cultural Services Department (LCSD)*. The FEHD and the LCSD were established on 1 January 2000 to take over the activities of the then Urban Services Department (USD) and the then Regional Services Department (RSD) upon the dissolution of the Provisional Urban Council (PUC) and the Provisional Regional Council (Pro RC). There were significant changes in the workload and job complexities of the DAUs of the FEHD and the LCSD. Up to 30 September 2000, there was an overall reduction of 18% in the staff establishment of their DAUs (see paragraphs 3.12 to 3.19 below).

Civil Aviation Department

Reduction in the revenue portfolio of the CAD

3.2 Before the new Hong Kong International Airport commenced operations (at Chek Lap Kok) on 6 July 1998, in addition to normal departmental accounting work, Treasury grade staff of the DAU of the CAD had to monitor the financial operations of airport franchisees of the Hong Kong International Airport (at Kai Tak), appraise tenders in respect of airport revenue concession and participate in meetings with aviation representatives or airport franchisees in the capacity of financial advisor to the CAD.

3.3 After the commencement of operations of the new Hong Kong International Airport on 6 July 1998, a large part of the DAU's work relating to the collection of airport fees and charges had been handed over to the Airport Authority (AA). In particular, the number of revenue items under the responsibility of the DAU of the CAD decreased by 58%, from 12 in 1997-98 to 5 in 1999-2000. The CAD's revenue collection dropped by 75% from \$5,102 million to \$1,294 million in the same period. At present, the revenue portfolio of the CAD includes mainly revenue from aircraft en route navigation charges, air passenger departure tax (APDT) and charges for services provided to the AA (see Appendix A).

Audit observations on the reduction in the revenue portfolio of the CAD

3.4 Despite the significant reduction in the CAD's revenue portfolio, up to 30 September 2000, the permanent staff establishment of its DAU had only been reduced by 6%, as shown in Table 4 below.

Table 4

Comparison of the staff establishment of the DAU of the CAD as at 5 July 1998 and 30 September 2000

| Grade | Staff establishment of DAU as at | |
|----------------|----------------------------------|-------------------|
| | 5 July 1998 | 30 September 2000 |
| Treasury grade | 9 (Note) | 7 |
| Clerical grade | <u>23</u> | <u>23</u> |
| Total | <u>32</u> | <u>30</u> |

Source: CAD's records

Note: 1 Senior Treasury Accountant and 1 Accounting Officer I were responsible for handling the financial and accounting matters relating to the new Hong Kong International Airport projects. These posts were deleted in August 2000.

3.5 In response to Audit's enquiry as to why the staff establishment of the DAU of the CAD had only been reduced by 6%, the Director-General of Civil Aviation has said that the workload handled by the DAU is still significant for the following reasons:

- (a) the CAD, as the regulator of the new Hong Kong International Airport, has to monitor the operations of the airport. The DAU of the CAD is required to support the Director-General of Civil Aviation, who is a member of the AA Board, in relation to the commercial, financial, accounting and audit issues raised at the Board meetings, and the Finance and Audit Committee meetings of the AA;
- (b) the CAD has to coordinate with the AA and the Economic Services Bureau in making submissions to the Executive Council and the Legislative Council about the AA's Scheme of Airport Charges. Since the commissioning of the new Hong Kong International Airport in July 1998, there had been four submissions and all of them required extra efforts from the CAD in terms of vetting and coordination;

- (c) the CAD has to formulate policies and prepare detailed accounts for the provision of air traffic control services for recovering the charges through the AA and for the calculation of the aircraft en route navigation charges. The CAD has to conduct liaison and consultation sessions with the airline operators during the process;
- (d) the CAD has to provide advice to the AA from time to time on financial policy and issues in relation to airport charges; and
- (e) the CAD has to participate in the evaluation of proposals in relation to the provision of aviation facilities and the development of aviation activities in the light of the rapid growth and expansion of the aviation industry.

3.6 **Audit noted that there was a 6% reduction in the establishment of the DAU of the CAD by the deletion of a Senior Treasury Accountant post and an Accounting Officer I post. These two posts, responsible for handling the financial and accounting matters relating to the new Hong Kong International Airport projects, were deleted in August 2000, two years after the closure of the Hong Kong International Airport (at Kai Tak). However, there were no supporting data to indicate how the staff establishment of the DAU of the CAD was arrived at after the opening of the new airport. As a large part of the revenue portfolio handled by the CAD has been transferred to the AA after the opening of the new airport, Audit considers that there is a need to review the staff establishment of the DAU of the CAD based on objective criteria and productivity standards.**

Audit recommendation on the reduction in the revenue portfolio of the CAD

3.7 **Audit has *recommended* that the Director-General of Civil Aviation should, in conjunction with the Director of Accounting Services and the Secretary for the Civil Service, critically review the staff establishment of the DAU of the CAD against the present accounting workload and job complexities, having regard to the transfer of a large part of the CAD's former revenue management and collection functions to the AA.**

Response from the Administration

3.8 **The Director-General of Civil Aviation has said that there is no immediate need to review the staff establishment of the DAU of the CAD as a whole. He has also said that:**

- (a) since the commissioning of the new Hong Kong International Airport in July 1998, the CAD has assumed the role of the airport regulator which enforces airport and aviation safety and security standards and oversees the work of the AA. In addition, the CAD is also responsible for providing air traffic control services, regulating local airline operators, enforcing flight and airworthiness standards and regulating scheduled and non-scheduled air services. With the upsurge in air traffic in the past two years, the activities and responsibilities of the CAD have grown significantly, notwithstanding the handover of the airport management function to the AA;

- (b) the CAD is still required to participate in meetings with its aviation partners (i.e. the International Air Transport Association, the Board of Airline Representatives and individual airline operators) in relation to the provision of air traffic control services, en route navigation services and fees and charges under the Hong Kong Navigation Order. The role of the DAU in these meetings is not expected to diminish in future;
- (c) the DAU of the CAD continues to provide financial management services and management accounting services to the department. Not only there is no reduction in workload, there is an increase in workload to serve the various divisions of the CAD;
- (d) concerning the reduction in revenue of \$3,935 million relating to airport management, about \$1,487 million (or 38%) was in respect of airport concessions collected vide three demand notes monthly (before the closure of the Hong Kong International Airport at Kai Tak). Hence a significant reduction in revenue does not necessarily entail a corresponding reduction in workload;
- (e) the airport revenue management and collection functions of the DAU of the CAD represent only part of the functions of the DAU. The reduction in workload relating to the management of airport revenue is partly offset by the increase in workload of the APDT sub-section of the revenue section of the DAU of the CAD. Despite the 50% reduction in APDT from \$1,002 million in 1997-98 to \$499 million in 1999-2000 (as a result of the reduction in the tax rate from \$100 per passenger to \$50 per passenger with effect from 6 July 1998), the routine work has not reduced. Instead, the workload of the APDT sub-section has increased due to the change in the method of tax collection, the increase in the number of exemption cases and the growth in air passengers from 3% in 1999 to 9% in 2000. In view of the increase in workload, an Assistant Clerical Officer was redeployed to the APDT sub-section;
- (f) in the light of the cessation of the commercial activities after the closing down of the Kai Tak Airport and the change in workload of the revenue section, one Senior Treasury Accountant post and one Accounting Officer I post were deleted (Note 5), one Assistant Clerical Officer post was redeployed to the APDT sub-section, and in January 2001 one Clerical Assistant of the revenue section was redeployed to the Administration Division of the CAD as a result of the internal redeployment of staff resources; and

Note 5: *The Senior Treasury Accountant post and the Accounting Officer I post were created in 1990-91 to provide divisional operational support to the Replacement Airport Project Team and the Master Plan Consultants in the planning, design and construction of the new Hong Kong International Airport at Chek Lap Kok. In August 2000, these two posts were deleted after the opening of the new Hong Kong International Airport.*

- (g) based on the above information and the increase in responsibilities and workload stated in paragraph 3.5 above, the CAD does not consider that the DAU of the CAD is overstuffed (Note 6).

3.9 The **Director of Accounting Services** has said that he will be happy to assist the Director-General of Civil Aviation to review the staff establishment of the DAU of the CAD.

3.10 The **Secretary for the Treasury** agrees with the Director of Accounting Services' comments.

3.11 The **Secretary for the Civil Service** has said that he has no specific comments except to reiterate that each case must be considered on its own merits. The overall objective must be to ensure a more efficient system and a more cost-effective use of staffing resources.

Food and Environmental Hygiene Department and Leisure and Cultural Services Department

Staff establishment of the DAUs of the FEHD and the LCSD

3.12 Following the enactment of the Provision of Municipal Services (Reorganisation) Ordinance (Cap. 552) by the Legislative Council on 2 December 1999, the FC approved the establishment of a new government organisation structure for the delivery of municipal services with effect from 1 January 2000. The new structure was established by the setting up of a new policy bureau and two new departments (i.e. the Environment and Food Bureau (EFB), the FEHD and the LCSD), upon the dissolution of the two provisional municipal councils and the two executive departments (i.e. the PUC, the Pro RC, the USD and the RSD).

3.13 The duties of the EFB, the FEHD and the LCSD are as follows:

- (a) the EFB is responsible for formulating policies on food supply and safety, environmental hygiene, waste management, environmental protection and nature conservation. It leads and coordinates the Government's overall efforts in these areas and oversees the work of the FEHD, the Agriculture, Fisheries and Conservation Department (formerly the Agriculture and Fisheries Department) and the Environmental Protection Department;
- (b) the FEHD assumes the responsibilities for environmental hygiene services from the USD and the RSD, food safety services from the Department of Health, and live food animal

Note 6: *In Audit's view, the Director-General of Civil Aviation has not provided sufficient information to show that the existing staff establishment of the DAU of the CAD is at the appropriate level. There were no supporting data which indicated how the 6% reduction in the staff establishment was arrived at having regard to the fact that the CAD was no longer required to collect revenue in respect of eight revenue items which amounted to \$3,935 million in 1997-98. There is a need for the CAD to assess the manpower requirements of its DAU based on objective criteria and productivity standards.*

inspection and veterinary health services from the Agriculture, Fisheries and Conservation Department; and

- (c) the LCSD assumes the responsibilities for leisure and cultural services from the USD and the RSD. It also oversees the Antiquities and Monuments Office and the Books Registration Office. The Home Affairs Bureau (HAB) is the policy bureau of the LCSD.

3.14 Before the dissolution of the PUC and the Pro RC, the DAU of the USD, headed by an Assistant Director of Accounting Services, had a staff establishment of 9 Treasury grade officers, 6 executive grade officers, 83 clerical grade officers and 11 other supporting staff. The DAU of the RSD, headed by a Chief Treasury Accountant, had a staff establishment of 14 Treasury grade officers, 52 clerical grade officers and 1 other supporting officer. The DAUs of the USD and the RSD had the following main accounting duties:

- (a) processing of revenue collection and payments;
- (b) review of the procedures for collecting revenue and processing payments;
- (c) conduct of costing exercises;
- (d) assisting in the review of fees and charges by compiling costings;
- (e) preparation of revenue and expenditure estimates;
- (f) maintenance and development of the PUC's and the Pro RC's own accounting systems (e.g. PUC LAFIS, Pro RC LAFIS, PUC POCS and Pro RC POCS);
- (g) monitoring of capital project expenditure and other expenditure votes;
- (h) management of the investment of surplus funds;
- (i) provision of financial advice to the PUC and the Pro RC, including the preparation of accounting and finance related committee papers for the PUC and the Pro RC and attending the related council meetings; and
- (j) preparation of separate financial statements of the PUC and the Pro RC.

3.15 On 1 January 2000, following the dissolution of the PUC and the Pro RC, the accounting staff of the USD and the RSD were transferred to the FEHD and the LCSD. The DAUs of the FEHD and the LCSD are headed by a Chief Treasury Accountant and an Assistant Director of Accounting Services respectively. A comparison of the staff establishment of the DAUs of the USD and the RSD as at 31 December 1999 and the staff establishment of the DAUs of the FEHD and the LCSD as at 30 September 2000 is shown in Table 5 below.

Table 5

**Comparison of the staff establishment of
the DAUs of the USD, the RSD, the FEHD and the LCSD
as at 31 December 1999 and 30 September 2000**

| Grade/rank | Staff establishment as at 31 December 1999 | | | Staff establishment as at 30 September 2000 | | | Change | |
|--|---|-----------|--------------|--|-----------|--------------|---------------------------|---|
| | USD | RSD | Total (a) | FEHD | LCSD | Total (b) | Number (c) = (b) - (a) | % (d) = $\frac{(c)}{(a)} \times 100\%$ |
| Senior management | | | | | | | | |
| Assistant Director of Accounting Services | 1 | - | 1 | - | 1 | 1 | - | |
| Chief Treasury Accountant | - | 1 | 1 | 1 | - | 1 | - | |
| Senior Treasury Accountant | 2 | 1 | 3 | 1 | 1 | 2 | (1) | |
| | — | — | — | — | — | — | — | |
| Sub-total | 3 | 2 | 5 | 2 | 2 | 4 | (1) | (20%) |
| Middle management | | | | | | | | |
| Treasury Accountant | 3 | 4 | 7 | 2 | 5 | 7 | - | |
| Senior Accounting Officer | - | 1 | 1 | 1 | - | 1 | - | |
| Senior Executive Officer | 1 | - | 1 | - | - | - | (1) | (Note 1) |
| | — | — | — | — | — | — | — | |
| Sub-total | 4 | 5 | 9 | 3 | 5 | 8 | (1) | (11%) |
| Junior management | | | | | | | | |
| Accounting Officer I | 2 | 5 | 7 | 4 | 4 | 8 | 1 | |
| Executive Officer I | 3 | - | 3 | - | - | - | (3) | (Note 1) |
| Accounting Officer II | 1 | 2 | 3 | 2 | 1 | 3 | - | |
| Executive Officer II | 2 | - | 2 | - | - | - | (2) | (Note 1) |
| Senior Clerical Officer | 8 | 3 | 11 | 3 | 5 | 8 | (3) | |
| | — | — | — | — | — | — | — | |
| Sub-total | 16 | 10 | 26 | 9 | 10 | 19 | (7) | (27%) |
| Supporting staff | | | | | | | | |
| Clerical Officer | 75 | 49 | 124 | 53 | 56 | 109 | (15) | |
| Other supporting staff (Note 2) | 11 | 1 | 12 | 3 | 2 | 5 | (7) | |
| | — | — | — | — | — | — | — | |
| Sub-total | 86 | 50 | 136 | 56 | 58 | 114 | (22) | (16%) |
| Total | 109 | 67 | 176 | 70 | 75 | 145 | (31) | (18%) |

Source: Records of the FEHD and the LCSD

Note 1: The duties of the 6 executive grade officers were taken up by Treasury grade officers.

Note 2: The other supporting staff consisted of Personal Secretary, Office Assistant, Data Processor and Workman grade officers.

Audit observations on the staff establishment of the DAUs of the FEHD and the LCSD

3.16 Audit noted that there was an overall reduction of 18% in the staff establishment of the DAUs upon the transfer of the staff from the USD and the RSD to the FEHD and the LCSD. While six executive grade posts were deleted, the total number of Treasury grade posts remained unchanged.

3.17 In Audit's view, unlike the USD and the RSD which were the executive arms of the PUC and the Pro RC, the FEHD and the LCSD are government departments and are not self-accounting bodies. They can now draw on the Treasury's support services in delivering their accounting services (see paragraphs 2.16 to 2.20 above). In addition, there have been significant changes in the workload and job complexities of their DAUs for the following reasons:

- (a) the maintenance and development of the PUC's and the Pro RC's own accounting systems (e.g. PUC LAFIS, Pro RC LAFIS, PUC POCS and Pro RC POCS) are no longer required as the FEHD and the LCSD have been using the Treasury's accounting systems;
- (b) the financial monitoring work of capital project expenditure has been transferred to the Architectural Services Department (ArchSD) which is authorised to meet expenditure on projects for municipal services from the Capital Works Reserve Fund;
- (c) it is no longer necessary to perform work related to the financial management and investment of surplus funds for the PUC and the Pro RC;
- (d) there is no more need for providing financial advice to the PUC and the Pro RC, and preparing accounting and finance related committee papers for the two provisional municipal councils; and
- (e) the revenue and expenditure of the FEHD and the LCSD have become part of the General Revenue Account. Separate financial statements for the PUC and the Pro RC are no longer required.

3.18 **Audit noted that there were no supporting data to indicate that the staff establishment of the DAUs of the FEHD and the LCSD was at the appropriate level. In the light of the significant changes in accounting workload and job complexities as mentioned in paragraph 3.17 above, Audit considers that there is a need for the FEHD and the LCSD to assess the impacts of these changes on the number and ranking of posts in their DAUs based on objective criteria and productivity standards.**

Audit recommendation on the staff establishment of the DAUs of the FEHD and the LCSD

3.19 **Audit has recommended that the Director of Food and Environmental Hygiene and the Director of Leisure and Cultural Services should, in conjunction with the Director of Accounting Services and the Secretary for the Civil Service, critically review the staff establishment of their DAUs against the present accounting workload and job complexities, having regard to the significant changes in the workload and job complexities of their departments.**

Response from the Administration

3.20 **The Director of Food and Environmental Hygiene has said that the FEHD is carrying out a number of reviews with the objective of providing better service to the community. Some of these reviews require the input from the DAU of the FEHD and may have impact on the staffing requirement of the DAU. In addition, the DAU is involved heavily in assisting the alignment of fees and charges of the former Municipal Councils, setting up new systems to enhance efficiency, reviewing and designing accounting procedures to meet the changing needs of the department. The FEHD will carry out a staffing review of its DAU in the light of further experience. However, it is not considered appropriate to review now nor to pre-empt the review results. She has also said that:**

- (a) when the staff establishment of the DAUs of the FEHD and the LCSD was considered in 1999, the first consideration was the number of posts at the senior, middle and junior management levels and the clerical support posts. The second consideration was the appropriate grade for the posts. The senior level management posts, middle level management posts, junior level management posts and the clerical support posts were reduced by 20%, 11%, 27% and 16% respectively. Treasury grade officers were considered more appropriate to fill the management posts;
- (b) the support services provided by the Treasury to the USD and the RSD were similar to those provided to the FEHD. For the FEHD, the work involved in maintaining LAFIS and POCS is very much the same as the work involved in maintaining the PUC LAFIS, Pro RC LAFIS, PUC POCS and the Pro RC POCS except the following work which is taken up by the Treasury:
 - (i) the updating of the list of creditors in POCS other than departmental creditors; and
 - (ii) the printing and signing of cheques;
- (c) regarding the three out of the six executive grade posts referred to in Note 1 to Table 5 in paragraph 3.15 above, one Executive Officer I (Computer) post was responsible for

overseeing the issuing of market stall rental demand notes, printing of licences and permits, and inputting of data to POCS and other revenue collection systems. One Executive Officer II (Salaries and Government Accounts) post was responsible for supervising the processing of salaries and allowances of the civil servants as well as reimbursement of these expenses to the Government. One Executive Officer II (Urban Ticketing System) post was responsible for reimbursement to venue hirers. The duties performed by these posts still have to be performed even though the posts were deleted;

- (d) the financial monitoring work of capital projects of the PUC and the Pro RC fell under the purview of the Assistant Director (Planning) of the USD and the Assistant Director (Planning) of the RSD respectively. The transfer of the work to the ArchSD had minimal effect on the workload of the DAU of the FEHD because, in general, all capital and minor projects payments to the ArchSD involved two transactions each month for the USD and the RSD respectively;
- (e) with the dissolution of the PUC and the Pro RC, no financial management work is required for the two Councils. However, financial management work for the FEHD and the LCSD is still required;
- (f) it is true that it is no longer necessary for the FEHD to provide financial advice to the PUC and the Pro RC and to prepare committee papers. However, the DAU of the FEHD has to provide financial advice to other sections of the department and to provide financial information to the EFB, the FB and the Legislative Council. Their information needs are not less than those of the PUC and the Pro RC;
- (g) it is true that investment of surplus funds and preparation of separate financial statements for the PUC and the Pro RC are no longer needed. According to an estimate in 1999, this would result in a total saving of 1.3 Treasury grade officers and 1.2 clerical grade officers. However, offsetting this saving is the need to provide information to the Treasury on matters like contingent liabilities and outstanding demand notes at the year end;
- (h) as the FEHD is a government department, the DAU of the FEHD does not need to process transactions related to inter-departmental charges for non-trading fund departments. However, the scope of responsibilities of the FEHD and the LCSD is larger than that of the PUC and the Pro RC. The DAU of the FEHD has to process payments related to food safety, live food animal inspection and veterinary health services. (For the LCSD, it took over the payments of the Antiquities and Monuments Office and the Books Registration Office.) Besides, there is now the need to process transactions related to the issue and receipt of allocation warrants to and from other departments;

- (i) on the revenue side, there is some reduction in workload as there is no need for the FEHD to maintain separate bank accounts. However, there is the need to develop new systems to meet the latest needs and to align the procedures in the urban and the New Territories areas; and
- (j) based on the above information, she considers that the decrease in the staff establishment of the DAU of the FEHD is more significant than the decrease in accounting workload and job complexities. She does not consider that there is scope for further reduction (Note 7).

3.21 The **Director of Leisure and Cultural Services** has said that the LCSD has just been in operation for more than one year. The staff establishment of the DAU of the LCSD was determined after careful consideration of the workload, job complexities and operational requirements. The LCSD will closely monitor the operation of its DAU with a view to providing the most efficient and cost-effective services. He has also said that:

- (a) there has been a significant increase in the workload and job complexities of the DAU of the LCSD as a result of the LCSD's initiatives to enhance and improve its services (e.g. provision of more cultural presentations/programmes and recreation programmes, better customer services, more channels for revenue collection, more new venues and facilities, more contracting out/out-sourcing and better contract management). The DAU of the LCSD has streamlined or revised its operating procedures to cope with the additional workload;
- (b) upon corporatisation of the three performing companies (i.e. the Hong Kong Chinese Orchestra, the Hong Kong Dance Company and the Hong Kong Repertory Theatre), the workload on basic accounting duties will correspondingly be reduced. However, resources and expertise will be required for the examination of financial statements and reports of new corporations in order to assess their financial performance;
- (c) with effect from 1 April 2001, the LCSD will take over from the HAB the funding responsibility in respect of the Hong Kong Arts Festival Society (\$15.8 million) and the Hong Kong Philharmonic Society (\$63.4 million). The DAU of the LCSD will be actively involved in the accounting activities relating to the allocation and monitoring of a large amount of funds;

Note 7: *In Audit's view, the Director of Food and Environmental Hygiene has not provided sufficient information to show that the existing staff establishment of the DAU of the FEHD is at the appropriate level. There were no supporting data which indicated how the reduction in the staff establishment was arrived at having regard to the significant changes in the accounting workload and job complexities. There is a need for the FEHD to assess the manpower requirements of its DAU based on objective criteria and productivity standards.*

- (d) the implementation of the Mandatory Provident Fund scheme has generated a large amount of additional work for the DAU of the LCSD. The DAU has to make deductions from the salaries of the eligible contract staff and part-time staff, effect payment of Mandatory Provident Fund contributions to service providers and maintain the computer system for processing salaries and Mandatory Provident Fund contributions;
- (e) the LCSD uses various systems provided by the Treasury (such as LAFIS, POCS, the Payroll System and the General Demand Note System). Although the Treasury provides the hardware (e.g. the mainframe and the user terminals) and software, the LCSD still has to perform a lot of operational and maintenance functions. The DAU of the LCSD has to ensure that all the requests for payments are duly authorised with proper supporting documents. In addition, it has to input data into the computer system, check and authorise payment vouchers generated from the system, and select payment dates to ensure that payments are made without delay. The DAU of the LCSD has to interpret the financial reports generated by LAFIS, draw attention of responsible officers to areas of concern, define the requirements of analysis and format of new reports, maintain the account codes, update changes in estimates, and arrange journal entries through computer terminal. Similar tasks were performed by the DAUs of the USD and the RSD where separate systems were maintained;
- (f) Accounting Circular No. 4/88 of June 1988 announced that for more efficient and effective operations, individual departmental accounting instructions and procedures would no longer be subject to approval by the Treasury. The DAU of the LCSD is responsible for the development and regular review of accounting instructions and procedures. The approval of the Treasury is required for introduction of new mechanical devices for the collection of revenue (e.g. the use of Octopus in swimming pools), introduction of new receipt forms, amendment of existing receipt forms, application for imprests and opening of new bank accounts. The DAU of the LCSD has to ensure that each application is fully justified and the proposed accounting procedures are effective with adequate internal controls before submission to the Treasury for approval;
- (g) the dissolution of the PUC and the Pro RC has not relieved the DAU of the LCSD of its workload for the following reasons:
 - (i) the Revenue Collection System of the PUC is still maintained and operated by the DAU of the LCSD to facilitate the posting of massive amount of revenue data to LAFIS of the Treasury. Although the accounting and budgetary control duties can be discharged through the various systems of the Treasury, the DAU of the LCSD has to examine payment requests, process payment vouchers and claims for allowances, issue demand notes, interpret financial reports, define LAFIS report requirements, and maintain LAFIS. The DAU is also required to provide

financial and accounting advice to over 160 budget controllers who oversee over 720 cost centres. The LCSD maintains about 123,000 account codes which have to be overseen by its DAU. The tasks presently performed by the DAU of the LCSD using the Treasury's systems are almost the same as those in using PUC LAFIS and Pro RC LAFIS;

- (ii) before the dissolution of the PUC and the Pro RC, the monitoring of expenditure against the approved estimates of individual capital works projects was performed by the Planning Divisions of the USD and the RSD. The DAUs of the USD and the RSD maintained the accounting records and were only required by the ArchSD to settle one demand note covering a number of projects each month. The involvement of the DAUs of the USD and the RSD in the capital works projects was very limited;
- (iii) the workload of the DAU of the LCSD in handling capital works projects has become much heavier after the reorganisation. The DAU of the LCSD is required to monitor the allocation warrants received from the ArchSD authorising the LCSD to make payments on its behalf. In 2000-01, the DAU of the LCSD has received 362 allocation warrants. Notwithstanding the transfer of the capital works budgets to the ArchSD, the DAU of the LCSD continues to advise the clients on the projected recurrent consequences of capital projects as in the past;
- (iv) as the LCSD is a normal government department and has no surplus funds, an Accounting Officer II post in the Revenue Unit of the RSD for fund investment was deleted (Note 8);
- (v) the DAUs of the USD and the RSD only spent very little time in the preparation of committee papers (Note 9). The papers were mainly on the five-year forecasts and annual estimates of revenue and expenditure, investment of surplus funds and statements of accounts. After the dissolution of the PUC and the Pro RC, the

Note 8: *In Audit's view, the investment of surplus funds accounted for a significant part of the work of the senior and middle management of the DAUs of the USD and the RSD. For example, one main responsibility of the head of the DAU of the USD and the head of the DAU of the RSD was to maximise the return on investments. Therefore, as a result of the discontinuation of the investment of surplus funds, there should be a corresponding decrease in the workload at the more senior level. The reduction in staff should not be limited to the Accounting Officer II post.*

Note 9: *Audit has reservations about the Director of Leisure and Cultural Services' view that the DAUs of the USD and the RSD only spent very little time in the preparation of committee papers. The Director's view was inconsistent with the information given in the relevant ESC papers that the involvement of the heads of the DAUs of the USD and the RSD in Council meetings as finance and resource planning adviser was one of the main justifications for upgrading these posts to Assistant Director of Accounting Services and Chief Treasury Accountant respectively.*

DAU of the LCSD has spent more time in providing financial information to the central government, and Members of the Legislative Council and the District Councils. The DAU of the LCSD is responsible for the preparation of detailed estimates of revenue and expenditure for submission to the HAB and the FB, and the provision of management information (e.g. the monthly financial highlights, the periodic expenditure reports, and the review of fees and charges) to the directorate officers of the LCSD; and

- (vi) for the preparation of the financial statements of the Government, the LCSD is still required to provide the Treasury with a lot of relevant information such as details of contingent liabilities. Although some jobs and responsibilities are no longer required after the dissolution of the PUC and the Pro RC, they have been replaced by new ones. For example, the USD and the RSD were delegated with the authority to create advance and deposit accounts, open new accounts and establish imprests, but now the LCSD has to seek the approval of the FB or the Treasury in these matters; and

- (h) based on the above information, the existing staff establishment of the DAU of the LCSD is the bare minimum to meet the operational requirements of the LCSD and to enable the DAU to function effectively (Note 10).

3.22 The **Director of Accounting Services** has said that the FEHD and the LCSD have only been operational for slightly more than one year. This is a very short time to assess to what extent the staffing of the DAUs of the FEHD and the LCSD is appropriate for the duties and responsibilities required by the new Controlling Officers of these two departments.

3.23 The **Secretary for the Treasury** agrees with the Director of Accounting Services' comments.

3.24 The **Secretary for the Civil Service** has said that he has no specific comments except to reiterate that each case must be considered on its own merits. The overall objective must be to ensure a more efficient system and a more cost-effective use of staffing resources.

Note 10: *In Audit's view, the Director of Leisure and Cultural Services' response has not provided sufficient information to show that the existing staff establishment of the DAU of the LCSD is at the appropriate level. There were no supporting data which indicated how the reduction in the staff establishment was arrived at having regard to the significant changes in the accounting workload and job complexities. There is a need for the LCSD to assess the manpower requirements of its DAU based on objective criteria and productivity standards.*

PART 4: MANAGEMENT INFORMATION SYSTEM AND PERFORMANCE MEASUREMENT

Departmental management information system

4.1 DAUs are involved in providing a number of accounting activities. For assessing the staffing requirements of different types of accounting work, it is important to have information on the time (and the related staff costs) spent on different accounting activities. Service-wide, it is useful to aggregate such information for compiling management reports to help determine the staff establishment of the DAUs, including the grades, ranks and number of staff required.

Audit observations on departmental management information system

4.2 In November 2000, Audit asked Controlling Officers of 72 bureaux and departments whether their DAUs had a management information system for recording the accounting workload, staff time and cost for the different kinds of accounting work. Audit was advised that:

- (a) all bureaux and departments did not have a management information system for recording the accounting workload of their DAUs (and the related staff costs), and the time their staff spent on different kinds of accounting work;
- (b) all the bureaux and departments could provide data on the accounting workload for 1995-96 and 1999-2000 by checking available accounting records; and
- (c) for the purposes of comparison with the data in sub-paragraph (b) above, 12 bureaux and departments could not provide Audit with data on the accounting workload for 1991-92 because the related accounting records had been destroyed. 23 bureaux and departments were able to provide Audit with some form of incomplete data.

4.3 **In Audit's view, there is a need for bureaux and departments to develop and maintain a management information system for assessing objectively the workload and productivity of their accounting staff based on their output, and the staff time and costs incurred.**

Setting of performance standards and performance measurement

4.4 According to Financial Circular No. 4/94 (see paragraph 2.15 above), one of the main justifications that should be stated to support the creation of staff posts is the change in performance standards. In Audit's view, it is important for bureaux and departments to monitor the productivity of their DAUs and measure the extent of their achievements by setting and using appropriate performance standards and performance measurement.

Audit observations on setting of performance standards and performance measurement

4.5 In November 2000, Audit also asked Controlling Officers whether they had any performance targets and indicators for measuring the productivity of their accounting staff. From the replies of 72 bureaux and departments, it was revealed that:

Performance targets

- (a) 21 bureaux and departments (29%) set performance targets on the processing of payments. Of these 21 bureaux and departments, one department also set performance targets on the number of costing exercises to be completed and the number of fees and charges to be revised;
- (b) one department (1%) set performance targets on the customers' waiting time at its revenue collection offices;
- (c) 50 bureaux and departments (70%) did not have any performance targets;

Performance indicators

- (d) three bureau and departments (4%) set performance indicators on the processing of payments;
- (e) one department (1%) set performance indicators on the number of revenue receipts handled; and
- (f) 68 bureaux and departments (95%) did not have any performance indicators.

4.6 In Audit's view, it is important to set performance targets and indicators for measuring the productivity of DAUs. Based on such performance measures, bureaux and departments would be able to more objectively assess the work of DAUs and make necessary adjustments to the staffing level and structure.

Audit recommendations on departmental management information system and performance measurement

4.7 To better monitor the work of DAUs, Audit has *recommended* that the Director of Accounting Services should, in conjunction with the Secretary for the Treasury, consider issuing guidelines to Controlling Officers on:

- (a) the development of a management information system for use by bureaux and departments for recording the workload of each kind of accounting work and the related staff costs; and
- (b) the establishment of performance targets and indicators for measuring the workload and productivity of accounting staff on the different types of accounting work.

Response from the Administration

4.8 The **Director of Accounting Services** has said that he is happy to advise Controlling Officers on management accounting issues and to assist them on how to set performance targets and indicators for tasks that can be explicitly defined. He has also said that the support system already developed by the Treasury within the Departmental Financial Management System's suite of programs provides a framework for more sophisticated analysis of costs for Controlling Officers. The FMSD of the Treasury holds seminars and workshops for staff of DAUs to help them understand better how these systems may be used.

4.9 The **Secretary for the Treasury** agrees with the Director of Accounting Services' comments.

Appendix A
(paragraph 3.3 refers)

**Comparison of revenue collected by
the CAD in 1997-98 and 1999-2000**

| Revenue item | 1997-98 | Party responsible for collecting the revenue in 1997-98 | 1999-2000 | Party responsible for collecting the revenue in 1999-2000 (Note 1) |
|---|---------------------|---|---------------------|---|
| | (\$ million) | | (\$ million) | |
| Air passenger departure tax | 1,002 | CAD | 499 | CAD |
| Aircraft en route navigation Charges | 127 | CAD | 131 | CAD |
| Aircraft landing fees | 1,560 | CAD | - | AA |
| Aircraft parking fees | 83 | CAD | - | AA |
| Aircraft peak movement surcharge | 27 | CAD | - | AA |
| Airport car parking fees | 56 | CAD | - | AA |
| Airport concessions | 1,753 | CAD | - | AA |
| Airport rents | 324 | CAD | - | AA |
| Airport licences | 35 | CAD | 43 | CAD |
| Air cargo throughput charges | 127 | CAD | - | AA |
| Airport hydrant and pipeline charges | 5 | CAD | - | AA |
| Services to the AA | - | Not applicable | 620 | CAD |
| Others | 3 | CAD | 1 | CAD |
| Total | <u>5,102</u> | | <u>1,294</u> | |

(Notes 2
and 3)

Source: Records of the AA and the Treasury

Note 1: The AA is responsible for managing and collecting a number of revenue items after the new Hong Kong International Airport was opened on 6 July 1998.

Note 2: The revenue collected by the CAD in 1999-2000 was 25% (i.e. \$1,294 million ÷ \$5,102 million × 100%) of the amount collected in 1997-98.

Note 3: Compared with 1997-98, in 1999-2000 the CAD did not have to collect aircraft landing fees, aircraft parking fees, aircraft peak movement surcharge, airport car parking fees, airport concessions, airport rents, air cargo throughput charges, and airport hydrant and pipeline charges. In 1997-98, the sum of these eight items of revenue was \$3,935 million.

Appendix B

Acronyms and abbreviations

| | |
|--------|---|
| AA | Airport Authority |
| APDT | Air passenger departure tax |
| ArchSD | Architectural Services Department |
| CAD | Civil Aviation Department |
| CSB | Civil Service Bureau |
| DAUs | Departmental accounting units |
| DEC | Departmental Establishment Committee |
| EFB | Environment and Food Bureau |
| ESC | Establishment Sub-Committee |
| FB | Finance Bureau |
| FC | Finance Committee |
| FEHD | Food and Environmental Hygiene Department |
| FMSD | Financial Management Services Division |
| FSD | Fire Services Department |
| GFMIS | Government Financial Management and Information Systems |
| GPA | Government Property Agency |
| HAB | Home Affairs Bureau |
| ISD | Information Services Department |
| LAFIS | Ledger Accounting and Financial Information System |
| LCSD | Leisure and Cultural Services Department |
| PAC | Public Accounts Committee |
| POCS | Payment of Creditors System |
| Pro RC | Provisional Regional Council |
| PUC | Provisional Urban Council |
| RSD | Regional Services Department |
| USD | Urban Services Department |