

**Replies to initial written questions raised by Finance
Committee Members in examining the Estimates of Expenditure 2010-11**

Controlling Officer : Director of Audit

Session No. : 10

Reply Serial No.	Question Serial No.	Name of Member	Head	Programme
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AUD002	1011	TSE Wai-chun, Paul	24	(2) Value for Money Audit
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**CONTROLLING OFFICER'S REPLY TO
INITIAL WRITTEN QUESTION**

AUD001

Question Serial
No.

2853

Head: 24 – Audit Commission

Subhead (No. &
title):

Programme: (1) Regularity Audit

Controlling Officer: Director of Audit

Director of Bureau:

Question:

Please advise why the audit report on government accounts submitted by the Director of Audit to this Council every year is not based on the full-year consolidated account compiled by the Administration. If the audit report has to be based on the full-year consolidated account compiled by the Administration, should any legislative amendments be made? If yes, which legislation should be amended? Apart from this, are there any other considerations? What kind of procedures or measures should be introduced? When can these be implemented at the earliest opportunity according to your estimation? What will be the additional expenses involved?

Asked by: Hon. CHAN Mo-po, Paul

Reply:

The financial statements (i.e. the statement of assets and liabilities, and the statement of receipts and payments) of the Consolidated Account are the consolidated financial statements of the General Revenue Account and the eight Funds established or deemed to have been established under section 29 of the Public Finance Ordinance (Cap. 2). The eight Funds are the Capital Works Reserve Fund, the Capital Investment Fund, the Civil Service Pension Reserve Fund, the Disaster Relief Fund, the Innovation and Technology Fund, the Land Fund, the Loan Fund and the Lotteries Fund.

2. The preparation, audit and tabling of all the financial statements, other than the financial statements of the Lotteries Fund, are governed by sections 11 and 12 of the Audit Ordinance (Cap. 122). Section 12(2A) specifies that, within the period of 3 months, or such longer period as the President may determine, after the laying of the report and certified financial statements from the Director of Audit, a copy of the report of the Public Accounts Committee shall be laid before the Legislative Council. The preparation, audit and tabling of the financial statements of the Lotteries Fund are governed by section 7 of the Government Lotteries Ordinance (Cap. 334). A copy of the audited financial statements of the Lotteries Fund is required to be laid on the table of the Legislative Council.

3. The first Consolidated Account was included in the Annual Report of the Director of Accounting Services for 1986-87. There are no statutory provisions for the preparation, audit and tabling of the financial statements of the Consolidated Account. Proposals to change the existing arrangements (including the certification of the financial statements of the Consolidated Account by the Director of Audit under the Audit Ordinance, if necessary) should be agreed by the

Administration. The additional resources required can be determined if there is a requirement to certify the financial statements of the Consolidated Account.

Signature _____

Name in block letters BENJAMIN TANG

Post Title Director of Audit

Date 15.3.2010

**CONTROLLING OFFICER'S REPLY TO
INITIAL WRITTEN QUESTION**

Reply Serial No.

AUD002

Question Serial
No.

1011

Head: 24 – Audit Commission

Subhead (No. &
title):

Programme: (2) Value for Money Audit

Controlling Officer: Director of Audit

Director of Bureau:

Question:

The Audit Commission conducts value for money audit independently with precision which often shows that government departments have misused public funds and discharged their functions ineffectively. Value for money audit is effective in encouraging the Government to make good use of public funds and enhancing efficiency. At a time of inadequate public support for the Government, it is especially important that the Audit Commission should closely monitor the operations of the Government on behalf of the general public.

Can the Audit Commission increase the number of value for money audit reports to more than 19 in 2010-11 and expand the scope of audit? If yes, what will be the additional staffing requirements and expenses involved? If not, can the Audit Commission seek to have additional resources in the budget of coming years to expand the scope of value for money audit?

Asked by: Hon. TSE Wai-chun, Paul

Reply:

Availability of resources is just one of the factors we take into account in determining whether or not to conduct a value for money audit on a particular subject. In selecting subjects for conducting value for money audits, we also take into account a number of factors (such as materiality, risk, auditability, timeliness and value-added). We conduct a value for money audit when the situation warrants an in-depth review. We will continue to make the best deployment of our existing resources to provide independent, professional and quality audit services to the HKSAR Government and public sector organisations to help enhance public sector performance and accountability in Hong Kong. We will seek additional resources from the Administration when there is a need to do so.

Signature _____

Name in block letters BENJAMIN TANG

Post Title Director of Audit

Date 15.3.2010

**CONTROLLING OFFICER'S REPLY TO
INITIAL WRITTEN QUESTION**

AUD003

Question Serial
No.

Head: 24 – Audit Commission

Subhead (No. &
title):

3138

Programme: (2) Value for Money Audit

Controlling Officer: Director of Audit

Director of Bureau:

Question:

- (a) Has the Audit Commission identified any exceptional cases during the audit of the expenditures of the Independent Commission Against Corruption (ICAC), the Hong Kong Police Force (HKPF), and the Customs and Excise Department (C&ED) on rewards and special services (R&SS) in 2009-10, for example, whether some individuals have been given rewards or special services monies frequently every year, or have been rewarded anomalously high amounts?
- (b) Please advise whether the Audit Commission has carried out value for money audits on the expenditures of above-mentioned departments on R&SS. If yes, what are the results? If not, how can it be ensured that expenditures on R&SS have achieved a reasonable standard of efficiency and effectiveness? How can the economy in the use of the resources be examined?
- (c) Has the Audit Commission examined whether the payments for R&SS made by the above-mentioned departments are in compliance with their established rules and procedures to ensure that expenditures incurred under the mechanism are reasonable? If yes, what are the results? If not, what are the reasons for not doing so?
- (d) What are the grounds for the Audit Commission being satisfied that the above-mentioned departments have exercised sufficient internal control on expenditures for R&SS?

Asked by: Hon. TO Kun-sun, James

Reply:

- (a) The Audit Commission has not identified any exceptional cases during the audit of the expenditures of the ICAC, the HKPF and the C&ED on R&SS in 2009-10.
- (b) The Audit Commission has not carried out any value for money audits on the R&SS expenditures of the ICAC, the HKPF and the C&ED. Nevertheless, in carrying out the regularity audit of R&SS expenditures, officers of the Commission have obtained assurance that the internal controls of these three departments have been operating effectively to prevent misuse of R&SS funds. The Commission will keep in view the need for carrying out a value for money audit on R&SS expenditures having regard to factors such as materiality, risk, auditability, timeliness and value-added.

(c) & (d)

The Audit Commission has reviewed the rules and procedures established by the ICAC, the HKPF and the C&ED for making payments for R&SS, and has conducted audit tests on selected transactions. Based on the audit evidence and our professional judgement, the Commission is satisfied that sufficient internal control has been exercised, the laid down rules and procedures have been complied with and that the payments made are reasonable.

Signature _____

Name in block letters BENJAMIN TANG

Post Title Director of Audit

Date 15.3.2010

**CONTROLLING OFFICER'S REPLY TO
INITIAL WRITTEN QUESTION**

AUD004

Head: 24 – Audit Commission

Subhead (No. &
title):

Question Serial No.

3189

Programme: (2) Value for Money Audit

Controlling Officer: Director of Audit

Director of Bureau:

Question:

The Panel on Economic Development of the Legislative Council passed a motion on 16 July 2009 which asked the Government to keep the promise, namely to conduct a value for money (VFM) audit on the Travel Industry Council of Hong Kong (TIC), made by Mr CHAU Tak-hay, the former Secretary for Commerce and Industry.

Has the Audit Commission set aside any resources in 2010-11 to conduct a VFM audit on the TIC according to the proposal passed in a motion made by the Panel?

Asked by: Hon. TSE Wai-chun, Paul

Reply:

One of the objectives of the Audit Commission is to provide the Legislative Council with independent information, advice and assurance about the economy, efficiency, and effectiveness with which any bureau/department of the Government or public body has discharged its functions. The objective is achieved by conducting value for money audits in accordance with a programme of work determined annually by the Director of Audit. Given the wide spectrum of the activities of the Government and other public sector organisations, the Commission has to adopt a selective approach to conducting value for money audits taking account of factors such as materiality, risk, auditability, timeliness, and value-added.

2. According to the paper tabled in the Provisional Legislative Council on 11 February 1998 on the Scope of Government Audit in the Hong Kong Special Administrative Region — “Value for Money Audits”, audited organisations shall include:

- (a) any person, body corporate or other body whose accounts the Director is empowered under any Ordinance to audit;
- (b) any organisation which receives more than half of its income from public moneys (this should not preclude the Director from carrying out similar examinations in any organisation which receives less than half of its income from public moneys by virtue of an agreement made as a condition of subvention); and
- (c) any organisation the accounts and records of which the Director is authorised in writing to audit by the Chief Executive in the public interest under section 15 of the Audit Ordinance (Cap. 122).

3. At present, the Travel Industry Council of Hong Kong (TIC) does not meet the above conditions and is not subject to value for money audits by the Commission.

4. At the meeting held on 16 July 2009, the Panel of Economic Development of the Legislative Council passed a motion urging the Government to conduct a review of the structure, functions, fees and relevant arrangements of the TIC, including whether it should become a statutory organisation and be subject to value for money audits. Subject to the outcome of the review, the Commission will consider conducting value for money audits on the TIC according to the selective approach outlined in paragraph 1 above.

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Name in block letters BENJAMIN TANG

Post Title Director of Audit

Date 15.3.2010

**CONTROLLING OFFICER'S REPLY TO
INITIAL WRITTEN QUESTION**

AUD005

Question Serial No.

3190

Head: 24 – Audit Commission

Subhead (No. &
title):

Programme: (2) Value for Money Audit

Controlling Officer: Director of Audit

Director of Bureau:

Question:

The Panel on Economic Development of the Legislative Council passed a motion on 16 July 2009 which asked the Government to keep the promise, namely to conduct a value for money (VFM) audit on the Travel Industry Council of Hong Kong (TIC), made by Mr CHAU Tak-hay, the former Secretary for Commerce and Industry.

If the TIC does not fall within the audit scope of the Audit Commission because it is not a public-funded organisation, can the Director of the Audit put forward a proposal to the Government that the TIC be put under the Tourism Commission as a branch, and then conduct a formal audit review on it?

Asked by: Hon. TSE Wai-chun, Paul

Reply:

According to the paper tabled in the Provisional Legislative Council on 11 February 1998 on the Scope of Government Audit in the Hong Kong Special Administrative Region — “Value for Money Audits”, audited organisations shall include:

- (a) any person, body corporate or other body whose accounts the Director of Audit is empowered under any Ordinance to audit;
- (b) any organisation which receives more than half of its income from public moneys (this should not preclude the Director from carrying out similar examinations in any organisation which receives less than half of its income from public moneys by virtue of an agreement made as a condition of subvention); and
- (c) any organisation the accounts and records of which the Director is authorised in writing to audit by the Chief Executive in the public interest under section 15 of the Audit Ordinance (Cap. 122).

2. At present, the Travel Industry Council of Hong Kong (TIC) does not meet the above conditions and is not subject to value for money audits by the Commission. Whether the TIC should become an audited organisation (i.e. be subject to value for money audits by the Commission) is a policy matter for the Administration.

Signature _____

Name in block letters BENJAMIN TANG

Post Title Director of Audit

Date 15.3.2010