

By Fax

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28 December 2009

Clerk to Public Accounts Committee
Legislative Council Secretariat
Council Building
8 Jackson Road
Central, Hong Kong
(Attn: Ms Serena Chu)
[Fax No.: 2537 1204]

Dear Ms Chu,

**The Director of Audit's Report on the
results of value for money audits (Report No. 53)**

**Hong Kong Productivity Council:
Corporate governance and administrative issues (Chapter 7)**


I refer to your letter of 23 December 2009 to the Commissioner for Innovation and Technology (CIT). Our response is as follows –

- (a) The formation of an Audit Committee was proposed by the Hong Kong Productivity Council (HKPC) management in August 2005. This was a follow up to one of the recommendations made by the consultant SQW which recommended that for effective and transparent corporate governance, HKPC should establish an Audit Committee with the Internal Audit function reporting to that committee. The proposal was subsequently approved by the Council of HKPC on 11 August 2005. At that time, it was a special committee and Executive Director (ED)/HKPC was not its member. In January 2006, following a review of its committees' composition, the HKPC management proposed to turn the Audit Committee into a standing committee. The proposal was approved by the HKPC Council with ED/HKPC as a member of

the Audit Committee in line with section 5(1)(i) of the HKPC Ordinance. On both occasions, ITC agreed to HKPC management's proposals.

- (b) Section 5(1)(i) of the HKPC Ordinance stipulates that the Council of HKPC may appoint a standing committee for such general purpose and ED/HKPC shall be an ex-officio member. We note that the Audit Committee has been a standing committee of the Council since January 2006 and ED/HKPC should hence be its ex-officio member under the Ordinance.
- (c) We have sought legal advice on the ED's membership on the Audit Committee having regard to the provision in section 5(1)(i) of the HKPC Ordinance. The legal view has been that there is no provision in the section and in other parts of the Ordinance which provides the flexibility of ED not taking up membership in a standing committee. Having regard to Audit Commission's recommendation and after discussion with the Council Chairman and Chairman of the Audit Committee, it has been agreed that while the ED should continue to attend the Audit Committee to facilitate the Committee to better understand the governance issues of HKPC, he will refrain from taking part in the voting of the committee and he should be excused from the discussion of the sensitive issues if the Chairman of the Audit Committee sees such a need. The new arrangement should be able to address, to a large extent, the governance issue raised by the Audit Commission. ITC together with HKPC will closely monitor the implementation of the new arrangement and review to see if further improvement is required.

Yours sincerely,



(Andrew Lai)

for Commissioner for Innovation and Technology

c.c. PSCT
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AA/SCED
ED/HKPC
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