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Clerk, Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road
Central, Hong Kong

(Attn: Ms Macy NG)

Dear Ms Ng,

**The Director of Audit's Report on the
results of value for money audits (Report No. 54)**

Hong Kong Chinese Orchestra Limited (Chapter 6)

I refer to the Secretary for Home Affairs' letter of 8 June 2010 providing additional information to the Public Accounts Committee (PAC).

In paragraph 2 of the letter, the Secretary for Home Affairs has said that "it has not been the Home Affairs Bureau (HAB)'s intention to seek a confirmation from an auditor on provisions of the Funding and Services Agreement (FSA) which touches on non-financial matters. The performing arts groups have engaged their auditors with the same understanding. The HAB considers that the financial reports (including detailed financial statements) submitted by the performing arts groups had fulfilled the purpose of Annex C of the FSA of ensuring proper management and control of government funding."

In this connection, we would like to point out that the requirements in Annex C of the FSA were made in accordance with Financial Circular No. 9/2004 (R54/6/INFO7) which stipulates that:

“1.6 In all circumstances, they (Controlling Officers) should satisfy themselves that an appropriate system of cost control and monitoring is in place for overseeing the spending of public money by subvented organisations, having regard to economy, efficiency and effectiveness in the delivery of public service and use of public funds.

10.4 The auditors’ report accompanying the annual financial statement and annual financial report submitted should contain an expression of opinion as to —

(a) **On the annual financial statements of the subvented organisation —**

whether they give a true and fair view of the state of affairs of the subvented organisation as at the balance sheet date and of its financial result and cash flows for the year then ended.

(b) **On the annual financial report of the subvented programme(s) being audited —**

whether the subvented organisation has complied with, in all material respects, the requirements set by the Government (including the requirements to keep proper books and records and to prepare annual financial report of the subvented programme(s) in accordance with the books and records) and all the terms and conditions of the subvention as specified in the relevant subvention guidelines and other relevant documents.”

In our view, the previous audited financial reports (including detailed financial statements) submitted by the HKCO have only fulfilled the audit requirement in (a) above, but **not** the audit requirement in (b) above which aims to ensure the proper management and control of government funding. Paragraph 2.9 of the Audit Report is relevant. Therefore, we have reservation on the HAB’s view that financial reports submitted in the past by the performing arts groups (including the HKCO) “had fulfilled the purpose of Annex C of the FSA of ensuring proper management and control of government funding”.

We understand that it is not the HAB's intention to seek audit assurance on non-financial provisions of the FSA. As a result, in Annex C of the FSA for 2010-11, the HAB has modified the audit requirement in (b) above such that the auditor only has to express an opinion on the HKCO's compliance with the Government's requirements on the keeping of proper books and records as well as the accounting requirements in Clauses 6(t), 8.1(d) and 10(d) of the FSA. However, as pointed out in paragraph 3 of my letter of 18 May 2010 to the PAC, a number of other specific requirements of the FSA are also important to the HAB as the Controlling Officer in monitoring the subvention to the HKCO. Examples include Clause 6(a) on internal controls, Clause 6(h) on code of conduct (for Board members and staff) and declarations on conflict of interest, and Clause 6(u) on procurement. **Therefore, we consider that the HAB needs to monitor the performing arts groups' compliance with these requirements to ensure that government funding to them has been properly managed and controlled.**

Having said the above, we appreciate the HAB's acceptance of our recommendation to explore measures for ensuring compliance by the HKCO and other performing arts groups with some of the FSA clauses that are outside the modified audit requirement.

A Chinese translation of this letter will be separately provided in due course.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Josephine NG', with a long horizontal stroke extending to the right.

(Mrs Josephine NG)
for Director of Audit

c.c. Secretary for Home Affairs (Fax No.: 2835 1380)
Executive Director, Hong Kong Chinese Orchestra Limited (Fax No.: 2850 5374)
Secretary for Financial Services and the Treasury (Fax No.: 2147 5239)