



審計署
香港灣仔
告士打道七號
入境事務大樓
二十六樓

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

圖文傳真 Facsimile : 2583 9063

電話 Telephone : 2829 4303

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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)

Thank you for your letter of 13 May 2010 seeking my view on whether the audit requirements in the Funding and Services Agreement (FSA) for the year 2010-11 can facilitate the auditors engaged by the Hong Kong Chinese Orchestra Limited (HKCO) to express an opinion as required in the FSA in the future.

According to Annex C to the FSA of 2010-11, the HKCO auditor shall, among other things, express an opinion on whether the HKCO has complied with the accounting requirements specified in Clauses 6(t), 8.1(d) and 10(d) of the FSA. As such, the auditor is no longer required to express an opinion on whether **all** the terms and conditions of the FSA have been complied with, as previously required under the FSAs of 2008-09 and 2009-10. The reduced audit scope under the 2010-11 FSA would facilitate the auditor to express an opinion in the future.

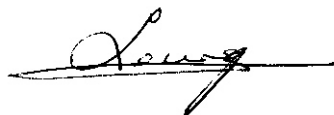
However, a number of specific requirements of the FSA (which would hence fall outside the audit scope under the 2010-11 FSA) are important to the Home Affairs Bureau as the Controlling Officer in monitoring the subvention to the HKCO. For example:

- (a) **Clause 6(a)**: that requires the HKCO to adopt proper internal controls to ensure that the subvention is used in a cost-effective and accountable manner;
- (b) **Clause 6(h)**: that requires HKCO employees/agents/sub-contractors to observe the “Code of Conduct for Members of the Governing Board and Staff of Performing Arts Organisations”, and the adoption of the pro-forma “Declaration of Conflict of Interest” (Annexes D and E to the FSA); and
- (c) **Clause 6(u)**: that governs the procurement of goods and services to ensure that all procurement is conducted in a fair, unbiased and competitive bidding basis.

Without the audit assurance, the Home Affairs Bureau may need to consider adopting other measures to satisfy itself that these essential requirements of the FSA have been properly complied with (see paragraph 10.4 of Financial Circular No. 9/2004 — R54/6/INFO7). The Home Affairs Bureau may wish to consult the Financial Services and the Treasury Bureau in this regard.

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', written over a horizontal line.

(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)