

Observations of the Public Accounts Committee on the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2010

The Committee noted the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2010 ("the Government Accounts").

2. The Committee had sought additional information from the Director of Audit and the Secretary for Financial Services and the Treasury in relation to the above Report. The Committee's enquiries as well as the information provided by the Director of Audit vide his letter of 10 January 2011 (in *Appendix 7*) and by the Secretary for Financial Services and the Treasury vide his letter of 24 January 2011 (in *Appendix 8*) are set out in the ensuing paragraphs.

Management reports/letters

3. The Committee asked the Director of Audit whether, after auditing the Government Accounts, the Audit Commission would issue management reports/letters to the Administration on weaknesses that existed in systems of financial control or accounting, significant irregularities, inconsistency of application of regulations, or fraud and corrupt practices.

4. The **Director of Audit** advised that consistent with the practice in the private sector, the Audit Commission had issued management letters (in the form of memorandum) to the Administration on the audit of the Government Accounts. As requested by the Committee, the **Director of Audit** provided a specimen of a management letter issued in 2009-2010 for the Committee's reference.

Other revenue in the Capital Works Reserve Fund

5. The Committee enquired about the nature of the recovery from the MTR Corporation Limited in the amount of \$131 million, which was shown as original estimated revenue in the 2010 account of the Capital Works Reserve Fund (in page 27 of the Report of the Director of Audit on the Government Accounts).

6. The **Director of Audit** replied that the amount of \$131 million was the estimated amount receivable from the MTR Corporation Limited in respect of construction works carried out by the Government on its behalf. Up to 2009-2010, no payments had been received from the MTR Corporation because the

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Administration and the Corporation had not yet agreed on the outstanding amount payable by the Corporation. According to the Administration, \$131 million represented the Government's best estimation of the amount that could be received from the Corporation.

Inclusion of variance analyses in the Government Accounts

7. The Committee noted that the Government Accounts included a variance analysis for General Revenue Account ("GRA") revenue/expenditure heads with actual revenue/expenditure different from the original estimates by more than 10%. However, similar revenue/expenditure analyses were not provided for the nine government funds established (or deemed to have been established) under section 29 of the Public Finance Ordinance (Cap. 2). The Committee asked about the reason for the different treatment.

8. The **Secretary for Financial Services and the Treasury** replied that the Government Accounts provided variance analyses for the GRA as GRA expenditure was subject to statutory control on an annual basis. Besides, the bulk of the Government's expenditure was met directly from the GRA.

9. As requested by the Committee, the **Secretary for Financial Services and the Treasury** provided the variance analyses for individual funds for 2009-2010 in his letter of 24 January 2011.

Preparation of the Consolidated Account of the Government

10. The Committee noted that the Director of Accounting Services prepared the Consolidated Account of the Government (i.e. the consolidated financial statements of the GRA and the funds established or deemed to have been established under section 29 of the Public Finance Ordinance) on both a cash basis and an accrual basis. However, there were no statutory provisions governing the preparation, audit and tabling of the cash-based and accrual-based Consolidated Accounts. The Committee enquired whether the Administration would consider amending the relevant legislation (e.g. the Audit Ordinance (Cap. 122)) so as to empower the Director of Audit to audit the Consolidated Accounts.

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11. The **Secretary for Financial Services and the Treasury** replied that:

- the cash-based financial statements for the GRA and the individual funds were audited by the Director of Audit pursuant to the Audit Ordinance (except the Lotteries Fund which was governed by the Government Lotteries Ordinance (Cap. 334)). In addition to the statutory accounts, for the purpose of giving an overview of the financial position and cash resources of the Government, the GRA and the individual funds, excluding the Bond Fund, were aggregated, with adjustments for inter-fund transfers, to form the cash-based Consolidated Account. As the consolidation process was relatively straightforward, the Administration did not see the need for the cash-based Consolidated Account to be audited by the Director of Audit; and
- in addition to the cash-based Consolidated Account, the Administration started to prepare accrual-based financial statements from 2002-2003 to provide additional information. Since then, the Administration had been making improvements to its accrual accounting policies as well as the relevant computer systems to enable better compliance with generally accepted accounting principles and to streamline the compilation work. The Administration would continue to review and introduce improvements to the accrual-based accounts, and would examine the need for statutory audit in due course.