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### Replies to initial written questions raised by Finance Committee Members in examining the Estimates of Expenditure 2015-16

Controlling Officer : Director of Audit

Session No. : 3

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**CONTROLLING OFFICER'S REPLY**

**AUD001**

**(Question Serial No. 1694)**

Head: (24) Audit Commission  
Subhead (No. & title): (-) Not Specified  
Programme: (2) Value for Money Audit  
Controlling Officer: Director of Audit (David SUN)  
Director of Bureau: -

Question:

According to page 60 of Head 24, operational targets of the Audit Commission remain unchanged but the number of man-hours spent increases year after year. What are the reasons for that?

Asked by: Hon CHAN Hak-kan (Member Question No. 43)

Reply:

With the growing demand for public accountability, the Audit Commission considers it important to strike a balance between the number and coverage of the value for money audits. The number of man-hours on Programme (2) Value for Money Audit will increase from 159 396 in 2013-14 to 173 204 and 176 467 in 2014-15 and 2015-16 respectively. This is mainly attributed to the following reasons:

- (a) the increasing complexity of value for money audits call for more staff resources for conducting more in-depth audit work for each study; and
- (b) the Public Accounts Committee (PAC) shows keen interest in the audit subjects and findings in the Director of Audit's Reports. Of the 54 subjects in the Director of Audit's Reports (Report Nos. 58 to 63) tabled in the Legislative Council in the past three years, the PAC selected 36 subjects for examination (holding public hearings and/or raising written inquiries) and follow-up. More staff resources are required for supporting the PAC's examination and follow-up work.

To meet the need for additional staff support, a new Auditor post was created in 2014-15 and internal redeployment of staff resources was made.

- End -

**CONTROLLING OFFICER'S REPLY**

**AUD002**

**(Question Serial No. 6453)**

Head: (24) Audit Commission  
Subhead (No. & title): (000) Operational Expenses  
Programme: (2) Value for Money Audit  
Controlling Officer: Director of Audit (David SUN)  
Director of Bureau: -

Question:

Regarding the Audit Commission's expenditure on value for money (VFM) audit and the proportion of such expenditure against total government expenditure, will the Audit Commission advise this Committee of the following:

- (a) the Audit Commission's expenditure on VFM audit and the proportion of such expenditure against total government expenditure in the past five financial years;
- (b) whether international bodies have set any indicators concerning the proportion of expenditure on VFM audit against total government expenditure. If so, please provide details of these indicators. If not, will the Audit Commission provide data on the proportion in developed countries or regions? If such data cannot be provided, please provide reasons;
- (c) an account for the decline in the proportion of expenditure on VFM audit against total government expenditure in recent years; and
- (d) whether the Audit Commission will consider raising the proportion of expenditure on VFM audit against total government expenditure in future financial years, so that there will be additional resources for carrying out more audit studies, with a view to ensuring the proper use of public funds. If so, please provide the relevant work plan? If not, what are the reasons?

Asked by: Hon CHAN Ka-lok, Kenneth (Member Question No. 263)

Reply:

- (a) The Audit Commission's expenditure on VFM audit and the proportion of such expenditure against total government expenditure from 2010-11 to 2014-15 are given below:

	<b>2010-11 (Actual)</b>	<b>2011-12 (Actual)</b>	<b>2012-13 (Actual)</b>	<b>2013-14 (Actual)</b>	<b>2014-15 (Revised Estimate)</b>
<b>Expenditure on VFM audit (\$ million)</b>	82.5	84.8	90.6	93.5	102.2
<b>Expenditure on VFM audit as percentage of total government expenditure (%)</b>	0.027	0.023	0.024	0.022	0.026

- (b) We are not aware of any benchmarks set by international bodies governing the proportion of expenditure on VFM audit against total government expenditure. We note that some audit offices of developed countries/regions have set similar indicators. For example, the Office of the Auditor General for Western Australia has used the indicator “Performance audit cost per million dollars of gross government expenditure” (AUD\$117 for 2013-14, or 0.012% in terms of expenditure on performance audit as percentage of total government expenditure).
- (c) As shown in (a), there were slight fluctuations in the percentages of expenditure on VFM audit against total government expenditure during the years 2010-11 to 2014-15. There has not been any clear trend of decline in the proportion of expenditure on VFM audit against total government expenditure in recent years.
- (d) We monitor our resources requirements closely and seek additional resources from the Government when there is a need to do so. In 2014-15, we created 1 new Auditor post to strengthen our support for conducting VFM audit. We conduct a VFM audit when the situation warrants an in-depth review. Our VFM audits are generally planned and scheduled about one year in advance, after taking into account factors such as availability of resources, and the materiality, risk, auditability and value-added in selecting subjects for VFM audit. When we select a subject, we review the economy, efficiency and effectiveness with which the audited body has discharged its functions and focus more on identifying systemic issues that are relevant to the audited body and applicable to other government bureaux/departments.

- End -

**CONTROLLING OFFICER'S REPLY**

**AUD003**

**(Question Serial No. 6454)**

Head: (24) Audit Commission  
Subhead (No. & title): (000) Operational Expenses  
Programme: (2) Value for Money Audit  
Controlling Officer: Director of Audit (David SUN)  
Director of Bureau: -

Question:

Regarding the Audit Commission's selection criteria for value for money audit subjects, will the Audit Commission advise this Committee of the following:

- (a) the number of suggestions or requests received from members of the public or organisations asking the Audit Commission to carry out value for money audits of government departments or publicly-funded organisations in the past three years. To what extent does the Commission consider these suggestions or requests when it selects audit subjects? If the Commission does not consider these suggestions, what are the reasons?
- (b) government departments or publicly-funded organisations were involved in misuse of public funds or mismanagement as revealed by the mass media through investigative journalism. However, the Audit Commission may not consider carrying out value of money audits on the departments or organisations concerned. What are the Audit Commission's selection criteria for audit subjects?

Asked by: Hon CHAN Ka-lok, Kenneth (Member Question No. 264)

Reply:

- (a) The number of complaints (including requests for conducting audit reviews) against government bureaux/departments and audited organisations received by the Audit Commission are 788 in 2012, 797 in 2013 and 789 in 2014. In general, we do not conduct value for money audit based on individual complaints. However, the information and views provided in the complaints are analysed and summarised, and taken into account in planning our value for money audits. In our replies to these complaints, we explained briefly our work procedures for conducting value for money audits and selecting audit subjects, and the Government's requirements that before the audit report is submitted to the Legislative Council, the issues under investigation are strictly confidential.

- (b) We take note of and analyse the individual complaints and media reports, and monitor the subjects of the complaints and reports closely. We conduct a value for money audit when the situation warrants an in-depth review. In general, we plan and schedule our value for money audits about one year in advance. In selecting subjects and allocating resources for value for money audit, the Audit Commission takes into account factors such as materiality, risk, auditability and value-added and whether the issues could be systemic. Pursuant to the agreement between the Legislative Council, the Government and the Director of Audit, a public body is subject to value for money audit only when one of the following criteria is met: (a) whose accounts the Director of Audit is empowered under any Ordinance to audit; (b) receiving more than half its income from public moneys (or by virtue of an agreement made as a condition of subvention); and (c) the accounts and records of which the Director is authorised in writing by the Chief Executive to audit in the public interest under section 15 of the Audit Ordinance (Cap. 122).

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**CONTROLLING OFFICER'S REPLY**

**AUD004**

**(Question Serial No. 6455)**

Head: (24) Audit Commission  
Subhead (No. & title): (000) Operational Expenses  
Programme: (2) Value for Money Audit  
Controlling Officer: Director of Audit (David SUN)  
Director of Bureau: -

Question:

In response to the Audit Commission's value for money audits, government departments or publicly-funded organisations usually indicate that they agree with the audit recommendations. However, as time goes by, a number of the audit recommendations have not been implemented, and various issues revealed in Director of Audit's Reports have not been rectified. Will the Audit Commission earmark resources to conduct follow-up audits to ensure that departments or organisations examined previously in value for money audits have implemented the audit recommendations? If so, please provide details of the work. Will the Audit Commission consider publishing results of the follow-up work? If the Audit Commission will not carry out any follow-up audits, what are the reasons?

Asked by: Hon CHAN Ka-lok, Kenneth (Member Question No. 265)

Reply:

The Audit Commission has put in place a mechanism to monitor the development of subjects included in the Director of Audit's Reports. For subjects selected for investigation by the Public Accounts Committee, the Commission conducts an annual clearance exercise to inform the Committee of the latest developments of issues raised in the Committee's Reports. The Committee, in its reports, takes stock of the progress of the action taken by the Government on the Committee's recommendations, and offers the Committee's views on the action taken. The Government's response to the Committee's Report is contained in the Government Minute which is tabled in the Legislative Council. For subjects not selected for investigation by the Committee, the Audit Commission calls for separate progress reports from the auditees concerned directly on a half-yearly basis, and reviews the latest developments. If the situation warrants, the Commission may conduct follow-up audit reviews on issues raised in previous audits. The review results will be published in the Director of Audit's Report.

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