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Replies to initial written questions raised by Finance Committee Members in examining the Estimates of Expenditure 2016-17

Controlling Officer : Director of Audit

Session No. : 3

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CONTROLLING OFFICER'S REPLY

AUD001

(Question Serial No. 1009)

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:

The operational targets of the Audit Commission remain unchanged year after year (2 Director of Audit's Reports submitted to the Legislative Council, and 18 value for money audit reports issued to audited bodies), but the number of man-hours spent keeps increasing. What are the reasons for that? Has the Commission reviewed the prevailing work arrangements to curb the annual increase in the number of man-hours spent?

Asked by: Hon CHAN Hak-kan (Member Question No. 17)

Reply:

Two Director of Audit's Reports on the results of value for money (VFM) audits are submitted each year to the Legislative Council in April and October respectively, comprising a total of 18 VFM audit reports issued to audited bodies.

In the past 3 years (2013-14, 2014-15 and 2015-16), the numbers of man-hour spent on VFM audits were 159 396, 167 686 (an increase of 5.2%) and 170 216 (an increase of 1.5%) (revised estimate) respectively. With the growing demand for public accountability, the Audit Commission considers it important to strike a balance between the number and coverage of the VFM audits. The increasing complexity of VFM audits calls for more staff resources for conducting more in-depth audit work for each study. Moreover, in view of the increase in the number of audit reports selected by the Public Accounts Committee (PAC) of the Legislative Council for investigation (tabulated below), more staff resources are required for supporting the PAC's investigation and follow-up work.

Year	Number of VFM audit reports issued to audited bodies	Number of audit reports selected by PAC for investigation	Percentage
2013/14	18	11	61
2014/15	18	16	89
2015/16 (up to October 2015)	10	10	100

The Audit Commission reviews its workload and workflow from time to time to optimise its efficiency in discharging its duties.

- End -

CONTROLLING OFFICER'S REPLY

AUD002

(Question Serial No. 4274)

Head: (24) Audit Commission
Subhead(No. & title): (000) Operational expenses
Programme: (1) Regularity Audit
Controlling Officer: Director of Audit (David SUN)
Director of Bureau: -

Question:

As regards the number of accounts certified, the estimated number for 2016-17 will remain at 82, the same as in 2015-16, but the estimated number of man-hours will increase significantly by 7 530 hours. What are the reasons for that?

Asked by: Hon CHAN Hak-kan (Member Question No. 74)

Reply:

Regularity audit is a statutory duty of the Director of Audit under the Audit Ordinance (Cap. 122). The objective of regularity audit is to provide the Legislative Council (LegCo) with an overall assurance of the general accuracy and propriety of the Government's financial and accounting transactions. Regularity audit consists of 2 components, namely, certification audit and risk and compliance audit. The objective of certification audit is to collect sufficient, relevant and reliable evidence to support the Director of Audit's opinion on the financial statements of the Government. Certification audit is supplemented by risk and compliance audit which is to ensure that the relevant and applicable laws and regulations governing the management of public funds are complied with by public officers and that public funds are spent for the purposes approved by LegCo.

From 2012-13 to 2014-15, the total government expenditure had increased from \$377.3 billion to \$396.2 billion. Coupled with an increase in the number of government systems/programmes that involved significant spending and a large volume of transactions, it is necessary to expand the number and scope of risk and compliance audits to ensure that the systems/programmes are operating within the approved ambit and that the spending is incurred in accordance with the laid down policy objectives and conditions. This will enhance the monitoring of government bureaux and departments, and will in turn help ensure regularity, propriety and effective internal controls.

The increase in the number of man-hours by 7 530 (an increase of 8.1%) on regularity audit from 92 904 (revised estimate) in 2015-16 to 100 434 in 2016-17 (estimate) is for the conduct of more in-depth and broad-based risk and compliance audits. To meet the need for additional staff support on risk and compliance audits, a new Senior Auditor post will be created in 2016-17 and internal redeployment of staff resources will be made.

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CONTROLLING OFFICER'S REPLY

AUD003

(Question Serial No. 5051)

Head: (24) Audit Commission

Subhead (No. & title): -

Programme: Not specified

Controlling Officer: Director of Audit (David SUN)

Director of Bureau: -

Question:

As set out in paragraph 148 of the Financial Secretary's Budget Speech 2015-16, “(the Financial Secretary) asked all policy bureaux . . . to achieve more efficient use of resources through re-engineering and re-prioritising. (The Financial Secretary has) also launched the "0-1-1" envelope savings programme to reduce operating expenditure by a total of two per cent over the next three financial years. Resources saved will be re-allocated for new services.” Please inform this Committee of the Audit Commission's actions for the implementation of the "0-1-1" envelope savings programme, as well as services affected and details of expenditures incurred in 2015-16 and 2016-17.

Asked by: Hon SIN Chung-kai (Member Question No. 85)

Reply:

In the face of an ageing population, shrinking labour supply and slowing economic growth, the Government needs to contain the expenditure to ensure fiscal sustainability. The “0-1-1” envelope savings programme is a fiscal planning tool aimed at achieving more efficient use of public resources through greater efforts in re-engineering and re-prioritization such that the savings can be re-deployed to the implementation of new or enhanced services.

Without affecting its services, the Audit Commission has, through streamlining, tightened the general departmental expenses and achieved a saving of \$530,000 and \$241,000 in 2015-16 and 2016-17 respectively. However, to cope with new tasks, the estimated recurrent expenditure of the Commission will increase by around 1% in the amount of \$1,592,000 in 2016-17.

Through redeploying resources and enhancing efficiency, the work of the Audit Commission has not been affected by the “0-1-1” savings programme as reflected in the increase in the number of man-hours spent and the key performance measures during the corresponding periods in 2015-16 and 2016-17 (tabulated below).

Year	Number of man-hours spent	Number of accounts certified	Number of value for money reports issued to audited bodies
2014-15	255,298	81	18
2015-16 (Revised Estimate)	263,120	82	18
2016-17 (Estimate)	272,051	82	18

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CONTROLLING OFFICER'S REPLY

AUD004

(Question Serial No. 6588)

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; and
- (b) 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: Dr Hon Kenneth CHAN Ka-lok (Member Question No. 449)

Reply:

- (a) The Audit Commission's expenditure on value for money (VFM) audit and the proportion of such expenditure against total government expenditure from 2011-12 to 2015-16 are tabulated below:

	2011-12 (Actual)	2012-13 (Actual)	2013-14 (Actual)	2014-15 (Actual)	2015-16 (Revised Estimate)
Expenditure on VFM audit (\$ million)	84.8	90.6	93.5	101.8	106.9
Expenditure on VFM audit as percentage of total government expenditure (%)	0.023	0.024	0.022	0.026	0.025

- (b) Given the Audit Commission's existing resources, our VFM audits are generally planned and scheduled about 1 year in advance, after taking into account factors such as amount of public money and risk involved, auditability, value-added, timing and availability of resources. When we conduct a VFM audit, we review the economy, efficiency and effectiveness with which the audited body has discharged its functions and focus more on identifying systemic issues. The audit findings and recommendations may also be relevant to other government bureaux/departments. Same as last year, we plan to issue 18 VFM audit reports to audited bodies in 2016-17. We will monitor our resources requirements closely and seek additional resources from the Government when there is a need to do so.

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CONTROLLING OFFICER'S REPLY

AUD005

(Question Serial No. 6589)

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 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 (VFM) of government departments or publicly-funded organisations in each of the past five 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) whether the Commission has carried out any VFM audit of government departments or publicly-funded organisations involved in misuse of public funds or mismanagement as revealed by the mass media through investigative journalism in the past three years. What are the Audit Commission's selection criteria for audit subjects?

Asked by: Dr Hon Kenneth CHAN Ka-lok (Member Question No. 450)

Reply:

(a) The number of complaints (including requests for conducting audit reviews) against government bureaux/departments and publicly-funded organisations received by the Audit Commission from 2011 to 2015 are tabulated below:

Year	Number
2011	558
2012	788
2013	797
2014	789
2015	490

In general, we do not conduct value for money (VFM) audit on the basis of individual complaints. However, the information and views provided in the complaints are analysed and summarised, and taken into account in planning our VFM audits. In our replies to these complaints, we explained briefly our work procedures for conducting VFM 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) To keep ourselves up-to-date with the latest situation of government bureaux/departments and publicly-funded organisations, the Audit Commission collects relevant information from various sources. Media reports are one of the sources. We take note of and analyse the individual complaints and media reports especially those alleging misuse of public funds or mismanagement, and monitor the subjects of the complaints and reports closely. We conduct a VFM audit only when the situation warrants an in-depth review of the subject concerned. In general, we plan and schedule our VFM audits about 1 year in advance. In selecting subjects and allocating resources for VFM audit, the Audit Commission takes into account factors such as materiality, timing, amount of public money and risk involved, auditability, value-added, and whether the issues are systemic. For publicly-funded organisations, pursuant to the Value for Money Audit Guidelines agreed between the Public Accounts Committee of the Legislative Council, the Government and the Audit Commission, we also consider the following factors: (a) the accounts are subject to audit under any ordinances; (b) the organisation is receiving more than half of its income from public moneys (or by virtue of an agreement made as a condition of subvention); or (c) 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

AUD006

(Question Serial No. 6590)

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:

Will the Audit Commission provide more resources in 2016-17 to further increase the number of audit subjects in each value for money audit exercise, so that more items of Government expenditure can be audited at the same time? If so, please provide details; if not, what are the reasons?

Asked by: Dr Hon Kenneth CHAN Ka-lok (Member Question No. 451)

Reply:

The resources of the Audit Commission are deployed between regularity audits and value for money (VFM) audits. The former is to ensure regularity and compliance of the Government's financial statements with the Public Finance Ordinance (Cap.2) and the latter is to highlight areas for improving the economy, efficiency and effectiveness of the bureaux/departments and publicly-funded organisations. The work of the two types of audits are complementary and aim to monitor the financial discipline and performance of Government. We generally follow a risk-based approach in selecting the subjects for audits.

With respect to VFM audits, we consider it important to strike a balance between the number of audits and the scope of each audit. The number of VFM audits is set each year after considering, among others: (a) the timing of the biannual VFM audit reports; (b) the scope of each VFM audit; and (c) the resources required to perform the audits and to assist the Public Accounts Committee of the Legislative Council in following up the findings.

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