

**Legislative Council
of the
Hong Kong Special Administrative Region**

**Delegation of the
Public Accounts Committee**

**Report on the duty visit
to London of the United Kingdom**

20 to 25 March 2011

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The delegation would like to thank, in particular, Mr Benjamin TANG, Director of Audit, who accompanied the delegation throughout the visit to provide professional assistance and technical advice to facilitate its study of the public audit system in the United Kingdom in relation to the Committee of Public Accounts.

The delegation is especially grateful to the Hong Kong Economic and Trade Office in London for its assistance in putting together a comprehensive visit programme and making the logistical arrangements.

CHAPTER 1: Introduction

Purpose of the report

1.1 A delegation of the Public Accounts Committee ("PAC") of the Legislative Council ("LegCo") visited London of the United Kingdom ("UK") from 20 to 25 March 2011 to study the mechanism, operation and working practices of the Committee of Public Accounts of the House of Commons ("Commons PAC") of the UK Parliament, as well as the public audit system in the UK in relation to the Commons PAC. This report presents the main findings and observations of the delegation.

Background of the visit

1.2 The PAC is established under Rule 72 of the Rules of Procedure of the LegCo. It is tasked to consider, among other things, the reports of the Director of Audit on the accounts and the results of value for money audits of the Government and other organisations which are within the purview of public audit.

1.3 At its meeting on 1 December 2010, the PAC considered the proposal of undertaking an overseas duty visit to other legislatures with a view to studying the operation and experiences of their equivalent parliamentary committees, which are responsible, like the PAC, for considering reports on value for money audits into the economy, efficiency and effectiveness with which government departments and other public bodies discharge their functions. After discussion, the PAC decided to visit the Commons PAC of the UK Parliament given its long history and well established system.

Objective of the visit

1.4 The objective of the visit is to study and obtain first-hand information on the mechanism, operation and working practices of the Commons PAC in examining the value for money reports produced by the Comptroller and Auditor General ("C&AG"), as well as the public audit system in the UK in relation to the Commons PAC. The delegation also takes this opportunity to obtain a better understanding of the budget procedures in the UK and the efforts made by the UK Government to enhance the efficiency of government departments and public bodies which receive government subvention.

CHAPTER 1: Introduction

Membership of the delegation

1.5 The delegation comprises the following five members of the PAC:

Dr Hon Philip WONG Yu-hong, GBS (Chairman of the PAC and Leader of the delegation)

Hon Paul CHAN Mo-po, MH, JP (Deputy Chairman of the PAC and Deputy Leader of the delegation)

Hon Ronny TONG Ka-wah, SC

Hon Cyd HO Sau-lan

Hon Starry LEE Wai-king, JP

1.6 At the invitation of the PAC, Mr Benjamin TANG, Director of Audit, accompanied the delegation with a view to facilitating its study of the public audit system in the UK.

1.7 Ms Miranda HON, Clerk to the PAC, and Mr KAU Kin-wah, Legal Adviser to the PAC, also accompanied the delegation on the visit.

Visit programme

1.8 The visit programme commenced on 21 March 2011 and ended on 24 March 2011. During the visit, the delegation met with various Members of the House of Commons, Members of the House of Lords and staff of the UK Parliament. The delegation also received briefings by representatives of the Audit Commission for Local Authorities in England and Wales ("Audit Commission"), the National Audit Office ("NAO"), the Department for Communities and Local Government ("DCLG"), Her Majesty's Treasury ("HM Treasury") and the Cabinet Office.

1.9 In addition, the delegation visited the Embassy of the People's Republic of China in the UK and the Hong Kong Economic and Trade Office in London ("London ETO"). The detailed visit programme is in **Appendix I**.

CHAPTER 2: Overview of the public audit system in the United Kingdom

2.1 In the UK, the Government is accountable to the Parliament for public expenditure under the following procedure:

- (a) the HM Treasury of the Government presents the estimates of government expenditure to the Parliament for approval;
- (b) the House of Commons considers the estimates and approves the grant of fund and the House of Lords gives its formal consent to the approval;
- (c) the C&AG, being an Officer of the House of Commons, audits the annual government accounts and examines the economy, efficiency and effectiveness of government spending with the support of the NAO, and reports to the Parliament accordingly;
- (d) the Commons PAC conducts inquiries into the audit reports presented by the C&AG and reports the findings to the House of Commons; and
- (e) the Government responds to the reports of the Commons PAC.

2.2 The public accounts audit and examination procedure of the UK Parliament was formally established in the 1860s. The Commons PAC was first appointed in 1861 to consider audit reports of government accounts. The Exchequer and Audit Departments Act 1866 provided for the establishment of the post of the C&AG which has the function of auditing government accounts, and the Exchequer and Audit Department in support of the C&AG.

2.3 The current public audit system was established in the 1980s with the passage of the National Audit Act 1983. The Act provides for the appointment of the C&AG as an Officer of the House of Commons, the power of the C&AG to examine the economy, efficiency and effectiveness of government spending in addition to the power to audit government accounts, and the establishment of the NAO to replace the Exchequer and Audit Department to support the C&AG.

CHAPTER 2: Overview of the public audit system in the United Kingdom

2.4 The C&AG and the NAO are primarily responsible for the audit of central government expenditure in the UK. The audit of accounts of the local governments and local public bodies in England are conducted by the Audit Commission.

2.5 For the devolved governments¹ in Scotland, Wales and Northern Ireland, the audit of public spending is carried out by the following authorities:

- (a) Scotland – the Auditor General for Scotland being supported by the Audit Scotland;
- (b) Wales – the Auditor General for Wales being supported by the Wales Audit Office; and
- (c) Northern Ireland – the Comptroller and Auditor General for Northern Ireland being supported by the Northern Ireland Audit Office.

¹ The UK Government devolves power to the Governments in Scotland, Wales and Northern Ireland to develop and implement their own policies on some matters such as health, education, transport, rural affairs, social services and culture. Meanwhile, the UK Government retains power to formulate national policies on matters that have not been devolved, including foreign affairs, defence, social security, macro-economic management and trade.

CHAPTER 3: Mechanism, operation, practices and procedures of the Committee of Public Accounts of the House of Commons

Visit programme

3.1 The delegation met with Rt Hon Margaret Hodge (Chair of the Commons PAC), Rt Hon Anne McGuire and Mr Nick Smith (members of the Commons PAC) and Mr Philip Aylett (Clerk of the Commons PAC) to discuss the Committee's work in examining the value for money audit reports produced by the C&AG.

3.2 The delegation also met with relevant officials of the NAO and the HM Treasury to study their working relationship with the Commons PAC and obtain information about how the NAO and the HM Treasury supported Commons PAC in its examination of the value for money audit reports.



*Group photo of the delegation with
Rt Hon Margaret Hodge, Chair of the Commons PAC (fourth from the right),
Rt Hon Anne McGuire (second from the right) and
Mr Nick Smith (third from the right), members of the Commons PAC, and
Mr Philip Aylett, Clerk of the Commons PAC (first from the left)*

CHAPTER 3: Mechanism, operation, practices and procedures of the Committee of Public Accounts of the House of Commons

Functions, powers and composition of the Committee of Public Accounts of the House of Commons

3.3 The Commons PAC is a select committee² appointed under Standing Order No.148(1) of the House of Commons "for the examination of the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit". Its main functions are to consider that public money is applied for the purposes prescribed by the Parliament; extravagance and waste are minimised; and sound financial practices are encouraged in estimating and contracting, and in administration generally.

3.4 The Commons PAC has most of the usual powers of select committees of the House of Commons, including the powers to "send for persons, papers and records", i.e. to require or invite any person or body to attend a meeting of the Committee to give evidence orally, submit evidence in writing, or submit specified documents; exchange papers and/or meet concurrently with other select committees, including committees of the House of Lords; report from time to time on its opinions and observations on any matters within its terms of reference and make special reports on any matters to which it intends to draw the attention of the House of Commons; and sit and hear evidence outside the precincts of the House of Commons.

3.5 The delegation notes that under Standing Order No.148(1), the Commons PAC consists of not more than 16 members, including the Chair. The current Commons PAC, appointed on 12 July 2010, comprises fourteen members and has a quorum of four. Eight members of the Commons PAC are from the Conservative Party, five from the Labour Party and one from the Liberal Democrats. By convention, one

² Select committees of the House of Commons of the UK Parliament are appointed by the House to perform a wide range of functions such as scrutinising the work of government departments and considering matters relating to the administration of the House. Most select committees are committees of inquiry which proceed by the taking of evidence, deliberation, and the making of reports to the House of Commons on their findings. Most select committees are established by the Standing Orders for the life of a Parliament.

CHAPTER 3: Mechanism, operation, practices and procedures of the Committee of Public Accounts of the House of Commons

of the members of the Commons PAC is a Minister of the HM Treasury who receives papers of the Committee but does not attend its meetings.

3.6 Standing Order No.122B(8)(f) provides that the Chair of the Commons PAC is chosen from Members of the opposition party. According to Standing Order No.122B(9), which was adopted in March 2010, the Chair of the Commons PAC is elected among the nominated members using the secret ballot procedure. In the past, members of the Committee were nominated at the beginning of each Parliament on the basis of motions moved by Ministers. From the new Parliament in 2010, members of the Commons PAC were elected by their party members instead of being nominated by the Whips.

3.7 The delegation was informed that this was the first time that the House of Commons had held elections for its select committees. The Commons PAC considered that direct elections to select committees were a very important force. As the Chair of the Commons PAC was elected by all Members of Parliament ("MPs") from across the political spectrum and its members elected by their party colleagues, the Committee enjoyed much greater credibility and authority, both within Parliament and beyond. The Commons PAC could take advantage of that added credibility and authority to strengthen its influence on the Executive and improve the accountability of the Executive to Parliament, and to ensure that the Executive really eked out best value for every penny it spent of taxpayers' money.

3.8 The delegation notes that the Chair of the Commons PAC is highly influential in the Committee's work. The Chair is required by convention and by statute respectively to act on the Committee's behalf in a number of respects, subject to her actions being reported back to the Committee where appropriate. At the beginning of each Parliament, the Commons PAC is invited to pass a resolution recognising the Chair's delegated powers. Besides, the Chair also has a tendency to be publicly outspoken about departmental failings revealed in the NAO reports, and such criticism is often reflected in the media upon the publication of a Commons PAC report.

CHAPTER 3: Mechanism, operation, practices and procedures of the Committee of Public Accounts of the House of Commons

3.9 The Commons PAC is advised by the C&AG and has the benefit of being supported by the considerable resources and professional skills of the NAO.



The delegation exchanged views with the Chair and members of the Commons PAC on the Committee's practices and procedures in examining the value for money study reports

CHAPTER 3: Mechanism, operation, practices and procedures of the Committee of Public Accounts of the House of Commons

Examination of value for money audit reports by the Committee of Public Accounts

Objectives of the Commons PAC

3.10 Since 1983, the Commons PAC's primary role has been the examination of the value for money audit reports presented by the C&AG to the Parliament. These reports look into the economy, efficiency and effectiveness with which government departments and other public bodies have used their resources to further their objectives. The Committee also considers the financial audit reports laid before the Parliament, memoranda submitted to it by the C&AG either on his own initiative or in response to requests made by the Committee, and the Government's response to the previous Committee reports.

3.11 The Commons PAC holds public hearings to take evidence on approximately two-thirds of the C&AG's value for money audit reports, with one public hearing usually covering one report. Occasionally, the Committee would send written questions to the government departments concerned.

3.12 The delegation notes that the Commons PAC's objective in examining the value for money audits is to draw lessons from past successes and failures which can be applied to future activity by the department examined or more generally. The Committee does not consider the formulation or merits of policy. Instead, it focuses on value for money criteria which are based on:

- (a) economy – the minimising of costs of resources used for an activity, having regard to appropriate quality;
- (b) efficiency – the relationship between the output in terms of goods, services or other results and the resources used to produce them; and
- (c) effectiveness – the relationship between the intended impact and the actual impact of an activity or product.

CHAPTER 3: Mechanism, operation, practices and procedures of the Committee of Public Accounts of the House of Commons

3.13 The delegation was told that under the National Audit Act 1983, the C&AG was not entitled to question the merits of policy objectives. However, this did not mean that the C&AG was barred from examining documents relating to policy, rather it was essential for the NAO to find out what the policy was so as to be able to tell if it was being carried out effectively.

Programme of work

3.14 The delegation notes that unlike other select committees of the House of Commons which normally meet only once a week, the Commons PAC meets twice weekly throughout the year except during the recess of the House of Commons. Unless otherwise decided, it holds public hearings on Tuesdays at 9:00 am and Wednesdays at 2:30 pm. Hearings usually last up to two hours. The Committee usually meets between 50 and 60 times a session.

3.15 Under the National Audit Act 1983, the C&AG has complete discretion in the discharge of his functions and particularly in determining whether to carry out any value for money audit of accounts and how to do so. However, as his value for money studies are the main subject matters of the Commons PAC's hearings, the National Audit Act 1983 also places a duty on the C&AG to take into account representations from the Committee when planning his programme. This is done both by requests made from time to time throughout the year, and also by the Committee's formal annual consideration of the C&AG's two-year forward programme of value for money studies, the second year of which is provisional. Some of the subjects chosen may arise from suggestions by other Members of the House or outsiders. The delegation was told that the C&AG did take into account the suggestions of members of the Commons PAC and adjusted his programme as appropriate.

3.16 According to the Commons PAC, about three times a year, the C&AG gives the Committee a list of the reports and memoranda he expects to be ready in the coming three months or so, and makes recommendations about which reports he considers that the Committee should examine more closely. The C&AG also suggests the witnesses whom the Committee should call. The Committee will then discuss the recommendations and decides on a programme, and the clerk will arrange

CHAPTER 3: Mechanism, operation, practices and procedures of the Committee of Public Accounts of the House of Commons

for the attendance of witnesses at the hearings. The programme is, however, not immutable and may be changed when necessary. The C&AG also monitors government action on past recommendations of the Committee and on the government replies to the Committee's reports, and the Committee frequently includes examination of such matters in its programme.

3.17 As regards the working relationship between the Commons PAC and other select committees of the House of Commons, the delegation was told that the Commons PAC did not work closely with other select committees due to time pressure and their different perspectives. The Commons PAC studied issues from the value for money angle whereas select committees focused on the policy aspect. They also adopted different working practices. For example, select committees normally invited Ministers to attend their meetings while the Commons PAC did not.

Taking of evidence

3.18 The Commons PAC generally takes oral evidence only from the relevant Accounting Officer of the government department (who is the senior civil servant designated by the HM Treasury as having responsibility for the management of public funds in his/her organisation), and other senior governmental officials. They may bring other staff with them to assist in answering questions, and where a grant to a public body is concerned, will usually bring the chief executive (or equivalent) of that body, who is usually appointed Accounting Officer for that body. Except on very rare occasions, the Commons PAC does not take evidence from Ministers. In the view of the Commons PAC, Ministers, being politicians, are usually not as forthcoming and direct as the Accounting Officers, who are civil servants, when giving evidence to the Committee and the quality of their evidence is often less impressive. From the Commons PAC's experience, the evidence given by the Accounting Officers can influence the relevant policies subsequently.

3.19 The C&AG (or his Deputy) and some of his staff are present at the Commons PAC's public hearings.

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3.20 The delegation notes that within the UK Government, the central responsibility for financial relations with the Parliament falls on the HM Treasury. Advice on such matters is provided by the Treasury Officer of Accounts ("TOA"), whose team is the focal point for relations with the Commons PAC and the NAO. The TOA (or an alternate) attends all the hearings of the Commons PAC and gives evidence at some hearings. The TOA may also be asked general questions about financial control. This allows scope for the Committee to explore any issues of more general application arising out of the subject of the hearing.

3.21 The delegation asked whether the Commons PAC would hold closed hearings, apart from public hearings, and if it would, what the factors of consideration were. The Commons PAC advised that since 1978, evidence had been heard in public unless considerations of national security or commercial confidentiality necessitated all or part of a hearing to be held in private. Where evidence was taken in private, the Committee would publish as much as possible of it later. Witnesses would mark the passages of the transcript which they suggested should not be published, but the Committee had the final decision.

3.22 Regarding the conduct of public hearings, the delegation was told that the NAO study teams would supply a briefing paper for each hearing about one week in advance, and they were sometimes asked by the Commons PAC members to supplement this with an oral briefing. The briefing covered questions suggested to be asked by members and the suggested lines of inquiry. Members of the Commons PAC said that they did not necessarily take up the lines of questioning prepared by the NAO. Very often, they selected within the proposed questions and came up with their own questions. They would also hold closed meetings to prepare for the hearings. The NAO subject officers maintained close contact with members and the clerk of the Committee and members would also contact the NAO staff directly.

3.23 The delegation was further informed that members of the Commons PAC would not divide the work among themselves but would work as a team. The Committee usually conducted its questioning by each member asking all his/her questions in turn, beginning with the Chair. The C&AG and relevant members of his staff would be present when the Committee was deliberating. When witnesses were unable to

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answer a question at the hearing, or wished to amplify their responses, the information would be supplied in writing later and published with the transcript of the oral evidence.

3.24 The delegation notes that all reports and memoranda prepared by the C&AG on which the Commons PAC takes evidence are agreed in advance with the department concerned. This process, which can take some time, is designed to ensure that the Commons PAC is not put in the position of having to arbitrate on disputes on facts. If a conclusion drawn from these facts by the NAO is disputed by the department, the latter's view is also stated in the C&AG's report or memorandum, so that the Commons PAC is aware of the situation and can enquire further about it.



The delegation presented a souvenir to Mr Marius Gallaher, Alternate Treasury Officer of Accounts, who briefed members how the TOA Team at the HM Treasury supported the Commons PAC

CHAPTER 3: Mechanism, operation, practices and procedures of the Committee of Public Accounts of the House of Commons

Reports by the Commons PAC

3.25 The delegation notes that the Commons PAC usually reports separately on each subject it has examined, with each report usually based on one day's oral evidence. In the 2009-2010 session, the Committee published 33 reports. Where an inquiry is so closely concerned with confidential matters that a public report cannot be made, the Committee addresses a letter to the responsible government minister instead. Normally, however, the Committee can make its recommendations in a published report without disclosing confidential information.

3.26 The delegation was advised that after a public hearing, the responsible NAO study team would prepare a draft report of the Committee for the Chair of the Commons PAC, who exerted a great deal of influence on the report and often gave feedback. The Chair would put forward the draft report for consideration by members of the Committee. The report would be based on the NAO's report and draw on what was said in the evidence session and any further information submitted by the department or agency in response to the Committee members' queries, and it was the Committee's recommendations that were authoritative. Members would debate the report and propose changes.

3.27 The Chair of the Commons PAC stressed that she would make sure that the evidence taken by the Committee was included in the Committee's report and the Committee's conclusions and recommendations were evidence based. Other members also said that due to the large number of reports published by the Commons PAC every year and the fact that the reports attracted much media interest and coverage, the Committee had a high profile and great impact on government practices. Besides, over the years, the Committee had made many recommendations that had had a great influence over the accounting procedures and wider financial administration of government departments and public agencies.

3.28 The delegation notes that as the Committee's reports are not constrained by the clearance process applied to the NAO's value for money study reports (referred to in paragraph 3.24 above), they are often franker in their criticisms.

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Briefing by Mr Steve Luxford, Parliamentary Relations Officer, NAO, on the NAO's role and responsibilities in supporting the Commons PAC

Following up the Commons PAC's reports

3.29 The Government's responses and views on the Commons PAC's reports are contained in the "Treasury Minutes", which are published in batches as Command Papers throughout the parliamentary session. It is the Government's aim to provide a reply within two months from the date of publication of a report by the Committee. The TOA Team at the HM Treasury administers the Treasury Minutes process, and instructs departments to respond. Additionally, departments also publish their Treasury Minutes responses in their annual reports, as well as a summary of their progress in addressing the Commons PAC's points since the Treasury Minutes were published.

3.30 The delegation notes that debates are held in the House of Commons every six months or so to "take note of the reports and government replies which have appeared since the last debate". The debate is usually opened by the Chair, and the Government's reply is given by the Financial Secretary to the Treasury. As many MPs as possible are encouraged to participate in the debate. Because the motion is to "take note" of the reports rather than approve them, it is usually agreed to without a division.

CHAPTER 3: Mechanism, operation, practices and procedures of the Committee of Public Accounts of the House of Commons

3.31 Following the publication of the Treasury Minutes, the NAO will monitor the progress made by departments in implementing the Commons PAC's recommendations, and the Committee may revisit the topic if the problems previously addressed still seem to persist.

3.32 Members of the Commons PAC said that most of the Committee's recommendations were accepted by government departments. However, in order to ensure that civil servants and Ministers would not just pay lip service to its recommendations, the Commons PAC had decided to be more rigorous in monitoring the implementation of their recommendations. The Parliament had passed a motion that required Ministers to report to Parliament if they failed to implement agreed recommendations on the Committee's reports within a year. The Committee would set aside two sessions a year to recall witnesses where it believed departments had failed to implement changes to which they had agreed. Hopefully, the new arrangement would exert greater public pressure for government departments to follow up the agreed recommendations more closely.

Confidentiality requirements

3.33 The delegation notes that the rule of the House of Commons on parliamentary privilege restricts the circulation of papers presented to a select committee and the release of information from its deliberative sessions. Such papers and proceedings are treated as confidential until they have been reported to the House and published. The improper release of unreported proceedings is a breach of privilege, and the premature release of reported but unpublished proceedings is considered a discourtesy to the House. If any such disclosure takes place, a formal procedure for investigation is begun by the select committee itself.

3.34 Where a select committee, having held an initial investigation, believes that the premature disclosure of a committee document has seriously affected its work (for example, if a draft committee report has been disclosed), it may make a special report to the House. Such a report is then referred to the Committee on Standards and Privileges to undertake an inquiry into whether a breach of parliamentary privilege has occurred and what action the House should be recommended to take.

CHAPTER 3: Mechanism, operation, practices and procedures of the Committee of Public Accounts of the House of Commons

3.35 According to members of the Commons PAC, the Committee's draft reports are kept in strict confidence, as is the text of a report in its agreed form, until the day of publication. The Committee's process of deliberation is also completely confidential. Members of the Commons PAC have a culture of complying with the confidentiality requirements.

Relationship between the Commons PAC and the NAO

3.36 Turning to the relationship between the Committee and the NAO, the Chair of the Commons PAC said that the quality of the Committee's work was very dependant on the quality of the NAO reports and that was often outstandingly good. The C&AG had the access rights that guaranteed the Committee the unparalleled ability to see what had been done with public money. On the other hand, if the Committee did not follow up the NAO reports by public hearings, they would lose their impact. It was therefore important that the Commons PAC and the NAO worked closely together. She was very grateful for the effort being put in by the C&AG and his staff to support her and other members of the Committee.

3.37 According to members of the Commons PAC, it is appropriate that the C&AG, whilst being an Officer of Parliament, is independent of the Committee. They consider that it would be wrong for politicians to dictate what the NAO should do. Equally, the Commons PAC should not be completely dependent on the NAO for information and advice.

3.38 The Chair of the Commons PAC said that it was for the above reason that she had successfully secured changes to the Standing Orders. The Commons PAC is now able to initiate its own studies and recruit its own advisers. While this in no way reflects on the quality of the NAO's work, it gives the Committee the facility to seek advice from independent voices and subject specialists whose primary purpose is to support the work of the Committee, not the work of the NAO. The Commons PAC has started to have seminars with professionals on particular topics. It has also started taking evidence from witnesses outside the senior civil service, such as the charities, private providers and consumers which are affected by the value for money reports generally. All these measures will help to enhance the independence of the Commons PAC from the NAO. The move is accepted by the C&AG.

Visit programme

4.1 The delegation visited the NAO and received briefings from officers of the NAO on their work, the planning and programming of value for money studies, as well as the role and responsibilities of the NAO in supporting the UK Parliament, including the Commons PAC and other select committees.

4.2 The delegation was also briefed on the NAO's contributions to current developments in government accounting and auditing.

The National Audit Office

Establishment of the NAO

4.3 The NAO, established under section 3 of the National Audit Act 1983, is funded directly by the UK Parliament to support the C&AG in scrutinising public spending. It employs around 900 staff. Its role is to help the UK Parliament hold the Government to account for the way it uses public money and help public service managers improve performance. Its vision is to "apply the unique perspective of public audit to help [the UK] Parliament and government drive lasting improvement in public services".

4.4 The NAO's work is overseen by the Public Accounts Commission ("TPAC"). The TPAC, established under section 2 of the National Audit Act 1983, is a parliamentary committee and is separate from the Commons PAC, although there is some overlap in membership³. The TPAC's functions include examining the NAO's annual bid for resources, appointing the NAO's external auditor and scrutinises its performance.

4.5 The NAO is headed by the C&AG. He is the principal adviser of the Commons PAC. The current C&AG, Mr Amyas Morse, was appointed in June 2009. The delegation notes that until 2009, the C&AGs had no term of office and could serve until they decided to retire.

³ The TPAC comprises the Chairman of the Commons PAC, the Leader of the House of Commons, and seven other Members who are not a Minister of the Crown. The Chairman of the TPAC is elected from those seven Members.

CHAPTER 4: National Audit Office and value for money studies

Following a review conducted by the TPAC in 2007 on the corporate governance arrangements for the NAO, the term of office of the C&AG is limited to a defined single non-renewable term of 10 years.

- 4.6 The independence of the NAO is safeguarded by the following:
- (a) the C&AG is an Officer of the House of Commons, and is appointed by the Queen. His appointment is proposed by the Prime Minister with the agreement of the Chair of the Commons PAC and approved by the House of Commons;
 - (b) the C&AG appoints the professional staff of the NAO. The staff are not civil servants and are independent of the Government;
 - (c) the C&AG and his staff have comprehensive statutory rights of access to the bodies they audit; and
 - (d) the NAO's budget is set directly by the Parliament, not the Government of the day.

Work of the NAO

4.7 In addition to supporting the C&AG in discharging his statutory functions, i.e. conducting financial and value for money audits, and performing the comptroller function of releasing funds from the Exchequer to government departments, the NAO also carries out the following duties:

- (a) providing support to the Commons PAC, other select committees of both Houses of the Parliament, and individual Members in their scrutiny of public expenditure and service delivery;
- (b) supporting audit clients to improve their performance by benchmarking their performance against best practice, developing best practice guidance such as toolkits, and promoting best practice through events and publications; and
- (c) providing advice and training to support effective scrutiny of public finances in other countries.

CHAPTER 4: National Audit Office and value for money studies

4.8 The NAO does not audit local government spending as such audits are performed by the Audit Commission.

Value for money studies

4.9 The NAO undertakes around 60 value for money studies each year as part of its overall aim to help the Parliament and the Government drive lasting improvement in public services. The NAO's value for money studies are evidence based and it draws its conclusions on the basis of audit analysis. Its reports are presented to the Parliament and considered by the Commons PAC.

4.10 The value for money programme covers all government departments and many other public bodies. Under the National Audit Act 1983, the NAO can examine and report on the economy, efficiency and effectiveness of public spending and it has powerful rights of access to relevant documents and information.

4.11 Each value for money study focuses on a specific area of government expenditure, and seeks to reach a judgement on whether value for money has been achieved. Good value for money is defined as the optimal use of resources to achieve the intended outcomes. The NAO's role is not to question government policy objectives, but to provide independent and rigorous analysis to the Parliament on the way in which public money has been spent to achieve those policy objectives.

4.12 Apart from reaching an overall conclusion on value for money, the NAO makes recommendations on how to achieve better value for money and to improve the services under examination. The NAO's reports form the basis of hearings of the Commons PAC and audited bodies respond to the recommendations made by the Commons PAC on the basis of the reports. In some circumstances, the NAO conducts a follow-up study to measure progress against the recommendations it has made.

4.13 According to the officers of the NAO, the value for money studies are undertaken by teams of staff with a wide range of skills including accountancy, statistics and research and from a range of disciplines. When required, the NAO brings in specialists from outside

CHAPTER 4: National Audit Office and value for money studies

the organisation. The methods commonly used by a study team include financial analysis, analysis of management information, documentary review, interviews or focus groups with departmental and other staff, literature review, surveys of practitioners or service users, and benchmarking with other organisations or other countries. The studies generally take between three and 12 months from inception to publication.

Planning and programming of value for money work

4.14 As advised by the NAO officers, each year the NAO draws up a programme of value for money work. It takes into account the Commons PAC's suggestions, but the C&AG alone decides what the NAO will examine. In 2010-2011, the NAO published 60 value for money reports. The topics were chosen after analysing the risks to value for money across Government, the scale of spending involved and areas of particular concern to the Commons PAC.

4.15 Study proposals are put forward by the teams within the NAO who work on each department or cross-government team, so as to ensure that those who have a detailed knowledge of, and regular contact with, the bodies it audits will contribute ideas about the main priorities on which the NAO should concentrate. The teams normally put up 80 to 90 proposals and the C&AG will decide what subjects to examine and the timetable. Each year about 45 reports are completed between March and December and 15 reports in the remaining months.

4.16 In order to achieve the greatest impact from its work, the NAO focuses on the drivers of public sector performance where its unique skills have most relevance and where there is potential to add value from its conclusions and recommendations.

4.17 The delegation notes that the NAO Strategy sets out three themes which inform the direction of the NAO's work and guide its choice of value for money studies. These three themes are key aspects of performance across the public sector and are also areas where performance issues most frequently occur. The themes are:

- (a) informed Government – the lifeblood of a successful organisation is the quality of information on which it makes

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decisions and monitors performance. The NAO will help the Government to make better use of information to achieve improved performance and productivity;

- (b) financial management and reporting – the NAO will help departments control costs and drive out waste by improving their financial management, gaining a better understanding of the link between costs and services and benchmarking performance to identify areas where value for money can be improved; and
- (c) cost-effective service delivery – effective service delivery requires sound programme and project management, strong commercial skills, effective IT-enabled business change and a thorough understanding of customer needs. The NAO will help departments to improve the quality of their decision making and drive waste out of their delivery arrangements.

4.18 The delegation was advised that in choosing the study topics, the NAO gave strong coverage to the main government departments, areas of high spending, major risks to value for money, topical subjects, and matters of strategic importance to departments. The focus of the value for money programme would change from year to year to reflect shifts of emphasis within these main areas. The NAO's current work focus includes the following:

- (a) cost reduction – examining how government bodies are developing and setting about implementing their plans for structured reductions in what they spend;
- (b) accountability – looking at the impact of the re-organisations across Government and use of new delivery models for accountability;
- (c) local level delivery – considering the whole delivery system and the ways in which services are funded, implemented and managed at local level;

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- (d) cross-government issues – looking right across Government or a group of bodies to draw out common lessons and highlight successful practices; and
- (e) tackling major economic challenges – looking at the major initiatives the Government is using to improve the current economic situation.

4.19 The NAO's value for money programme is published on its website.



*Ms Helen Holden, Audit Manager,
Value For Money Practice and Quality Team, briefed the delegation
on the programming and planning of value for money audits*

Support for the Parliament

4.20 The NAO provides independent advice to the Parliament to aid its scrutiny of the Government. It supports the Commons PAC, other select committees from both Houses and individual Members in their scrutiny of public expenditure and service delivery. It also deals with a wide range of enquiries from MPs which on occasion may lead to a full value for money report.

4.21 The delegation notes that the NAO works most directly with the Commons PAC. The Committee usually holds two hearings a week on recently published NAO reports. The C&AG (or his Deputy) attends all hearings of the Commons PAC and regularly appears as a witness. In 2010-2011, the NAO supported 43 hearings of the Committee. The support has included hearings on cross-government issues not specific to single NAO reports, such as on the implications for parliamentary accountability of changing governance arrangements, increased localism, and the new departmental business planning process.

4.22 The delegation was told that in 2010-2011, the NAO supported 19 other select committees in their scrutiny of Government. The select committees could request for evidence, research and briefings, and for seconding staff with specific expertise. There was a growing trend that the select committees requested for more NAO support and the NAO had to seek an increased budget in order to meet the demand.

Study on preparations for the London 2012 Olympic and Paralympic Games

4.23 The delegation notes that the NAO has undertaken a series of value for money studies on the preparations for hosting the London 2012 Olympic and Paralympic Games ("London Olympic Games"), with the first one issued in 2007. As the London Olympic Games will only be held in 2012, the delegation is interested to find out why and how the NAO conducts a study on an event the preparation of which is still on-going.

4.24 As informed by the NAO officers, the studies on the London Olympic Games were the first forward-looking studies that had been undertaken by the NAO. The 2012 Olympic and Paralympic Games

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were awarded to London on 6 July 2005. The preparations for the London Olympic Games constitute one of the largest and highest profile projects taken on by the UK public sector. The Commons PAC therefore has taken a great deal of interest in the progress of the preparations, not only to safeguard the use of the huge amount of public funding set aside to pay for the Games, but to play its part in ensuring that the unique opportunities for London and the UK arising from hosting the Games are fully realised. At the suggestion of the Commons PAC, the C&AG has decided to conduct a series of studies on the London Olympic Games in advance of spending by relevant departments and organisations and before it is held.

4.25 As at March 2011, the NAO has issued five reports on the preparations for hosting the London Olympic Games. Each of the reports has taken account of earlier reports by the Commons PAC and the NAO. On each occasion, the Commons PAC held public hearings to take oral evidence on the reports.

4.26 The delegation was told that the first report, issued in February 2007, was an early look at the progress that had been made to put in place the necessary delivery and financial arrangements since London was chosen as the host city. The report focused on risk assessment and management and identified the key risks and challenges ahead.

4.27 The second report was published in July 2007 and examined the development of the budget – costs, provisions and funding – for the venues and infrastructure required to host the Games and the related costs such as security.

4.28 In June 2008, the NAO published the third report which examined the progress made in preparing for the Games. The report covered the risk areas identified in earlier reports and in particular looked at the arrangements for governance and risk management, management of the budget for the Games, the progress of the programme with a focus on physical progress in preparing the venues and infrastructure, and the approach to procurement.

4.29 The fourth report was issued in February 2010. With just under two and a half years left, the report examined the progress made at a point in the programme where the focus was shifting from construction of the venues to planning for the Games themselves.

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4.30 The latest report to-date, the fifth one, was published in February 2011. It examined the progress across the Olympic Delivery Authority's construction programme; the progress with how the Government was coordinating the Olympics programme; the progress with the legacy from the Games; and the cost of the Games.

4.31 Regarding how the NAO audited the legacy from the Games, the delegation was advised that the NAO's role was to make sure that the Government had devised a plan for evaluating the legacy of the Games. The NAO would not evaluate the impact of the Games. In the latest report, the NAO found that while the Commons PAC had stressed the importance of learning lessons from the Games for the benefit of the wider public sector, the Government had no plans in place to identify and communicate lessons from the wider cross-government working that was required for the Games, and which could have more general applicability to the conduct of public business.



*Briefing by Mr Keith Hawkeswell, Director,
Department for Culture, Media and Sport Value for Money, NAO,
about the NAO's study on preparations for the London Olympic Games*



The delegation presented a souvenir to Mr Keith Hawkeswell, Director, Department for Culture, Media and Sport Value for Money, NAO

Contributions to current developments in government accounting and auditing

4.32 Financial statement audit forms the core of the NAO's work and gives it a unique understanding of the operations of some 470 accountable bodies. Its audit provides independent assurance to the Parliament that central government organisations spend money in accordance with parliamentary intention and that their accounts give a true and fair view of activities. The perspective and understanding the NAO gains from such work enables it to comment on the operations of the Central Government and how it controls risks and manages its finances.

4.33 In addition to an audit opinion, the NAO provides audited bodies with a management letter, which provides independent external observations on how they may improve their governance, financial management and operations. The NAO uses such observations to disseminate good practice across the Government on systemic issues and the weaknesses it has identified.

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4.34 The delegation notes that the NAO has contributed to the implementation of clear and consistent financial reporting in the UK Government. The Government announced in 2007 that the accounts of central government departments and entities in the wider public sector would be produced using International Financial Reporting Standards. The NAO played a key role in the implementation of the new Standards. It produced toolkits and guidelines for departments, and worked with the HM Treasury and clients to make sure implementation went smoothly. As a result of its efforts, only one set of departmental resource accounts was found not to be compliant with the new Standards. Government accounts are now of a higher quality and more consistent with best practice in the private sector.

4.35 According to the NAO officers, they work with the auditors of other Whole of Government Accounts bodies (i.e. the Audit Commission, Audit Scotland, Wales Audit Office, Northern Ireland Audit Office, and private sector firms) to establish group audit instructions for the Whole of Government Accounts, and strategies are available for the different types of bodies that make up the Accounts. The Whole of Government Accounts is a consolidated set of financial statements for the UK public sector prepared by the HM Treasury.

4.36 Besides, the NAO is working closely with the HM Treasury on the Clear Line of Sight Project ("Alignment Project"), which was an initiative introduced by the UK Government in July 2007 to bring planning, parliamentary approval and reporting of public spending on to a more consistent basis.

4.37 More details of the Whole of Government Accounts and the Alignment Project are given in Chapter 5 of this report.

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*Meeting with Mr Peter Morgan, Audit Manager,
Financial Audit Practice and Quality Team, NAO,
on the NAO's contributions to current developments in
government accounting and auditing*

CHAPTER 5: Her Majesty's Treasury and Cabinet Office

Visit programme

5.1 The delegation met with Sir Nicholas Macpherson, Permanent Secretary to the Treasury, and other relevant officials of the HM Treasury and the Cabinet Office. It received briefings on the recent developments in preparing government accounts in the UK, as well as the efforts made by the Cabinet Office to enhance the efficiency of government departments and to reform public bodies with a view to achieving savings.



Group photo of the delegation at the HM Treasury

Her Majesty's Treasury

5.2 The HM Treasury is the ministry responsible for formulating and implementing the financial and economic policy of the UK. The overall aim of the HM Treasury is to raise the rate of sustainable growth and achieve rising prosperity through creating economic and employment opportunities for all. There are about 1,200 staff in the HM Treasury. The HM Treasury is overseen by a Treasury Board, the purpose of which is to lead a Treasury that delivers its objectives and targets now and in the future.

5.3 The delegation was informed that under the current coalition government⁴, the HM Treasury has set the following three priorities for its work:

- (a) heading the Government's drive to reduce the structural deficit in a fair and responsible way;
- (b) creating the conditions that secure an economy that is growing sustainably, is more resilient, and is more balanced between public and private sectors and between regions; and
- (c) reforming the regulatory framework for the financial sector to avoid future crises.

5.4 With regard to the UK Parliament's procedure to scrutinise public expenditure, the roles of the HM Treasury include:

- (a) preparing the Main Estimates, which set out the resource budgets for each government department, and the Revised and Supplementary Estimates, which set out revisions on the Main Estimates, for the approval of the Parliament;

⁴ The Conservative-Liberal Democrat coalition government came to power in May 2010.

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- (b) preparing and submitting the annual Whole of Government Accounts to the C&AG for auditing, and laying before the Parliament the certified accounts and related reports issued on the accounts after being audited by the C&AG;
- (c) laying before the Parliament the certified annual departmental accounts and related reports issued on the accounts after being audited by the C&AG⁵; and
- (d) the TOA attending all hearings of the Commons PAC and giving evidence in some of the hearings.

⁵ The government departments prepare their accounts according to directions issued by the HM Treasury and submit them to the C&AG for auditing.

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*Meeting with Sir Nicholas Macpherson,
Permanent Secretary to the Treasury*

Recent developments in preparing government accounts

5.5 According to the HM Treasury, transparency is an important principle for the Government, so it works to embed best practice and encourage a more open culture. To reinforce this, all work on transparency is taken forward at the Board level.

5.6 The delegation notes that the key steps taken by the HM Treasury in support of its structural reform priorities include the establishment of the interim Office for Budget Responsibility ("OBR") in May 2010 to produce the official economic and fiscal forecasts that underpin the Budget. For the first time, forecast judgements were made independent of Ministers. The interim OBR committed to improving transparency, and the bill establishing the permanent OBR requires the OBR to perform its duties transparently.

5.7 Besides, starting from June 2010, the HM Treasury publishes historic data from the Combined Online Information System ("COINS"). This is the most detailed UK public expenditure data ever released, comprising planned departmental spending, outturn and forecast outturn. The delegation was advised that the historic data currently published was raw and work was underway to make COINS data more accessible to the lay reader.

5.8 As advised by the officials of the HM Treasury, consideration is being given to different options for replacing COINS. Subject to approval, the replacement will improve the transparency of public sector financial information and bring other benefits, including providing greater granularity of data and the ability to analyse better and model information at the centre of Government.

5.9 The delegation was informed that another initiative implemented by the HM Treasury was the publication of the Whole of Government Accounts, which are full accruals based accounts covering the whole public sector and audited by the NAO, for the first time. The Whole of Government Accounts is a consolidated set of the accounts of about 1,500 bodies, including central government departments, local authorities, devolved administrations, the health service, and public corporations. It is prepared using the International Financial Reporting Standards, as adapted and interpreted for the public sector, and is similar in presentation to private sector accounts. The aim of the Whole of

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Government Accounts is to enable the Parliament and the public to better understand and scrutinise how taxpayers' money is spent. By presenting the public finances in a framework familiar to the commercial and accountancy professions, the Whole of Government Accounts increases transparency and accessibility of information about public finances.

5.10 The first set of Whole of Government Accounts was published in Spring 2011 for the year ended 31 March 2010 and then it would be published on an annual basis.

5.11 The delegation was further briefed on the implementation of the Alignment Project. On 3 July 2007, the Prime Minister announced a commitment to bring planning, parliamentary approval and reporting of public spending on to a more consistent basis, and hence the Alignment Project. The challenges include: modernising the public spending system to improve accountability and transparency; simplifying the reporting of public finances to make it all easier to understand; and making it easier for departments to manage their financial resources and strengthening value for money incentives.

5.12 Specifically, the Alignment Project aims to make the Government's financial reporting simpler and more transparent by better aligning budgets, estimates and resource accounts, and rationalising the government spending documents presented to Parliament.

5.13 The main proposals under the Alignment Project are: the Parliament will vote budgetary limits; estimates will be extended to cover areas of spending that are currently not voted; the spending of non-departmental public bodies will be consolidated into estimates and resource accounts; estimates will be voted net of income; separate near and non cash limits will be removed from budgets; and there will be only three spending publication events each year.

5.14 The delegation was informed that all the proposals under the Project were supported by the Parliament and there was broad agreement amongst departments and other stakeholders. The UK Government would complete the full implementation of the reforms under the Alignment Project from April 2011.



*Briefing by Mr Larry Pinkney, Deputy Head,
Financial Reporting Policy, and
Financial Reporting Advisory Board Secretary, HM Treasury*

Efforts to achieve efficiency savings

Efficiency and Reform Group ("ERG")

5.15 The delegation notes that the ERG, which is based in the Cabinet Office, was set up in 2010 to ensure that all government departments would adopt a new and ambitious approach to saving money and started working together to ensure the greatest economy of scale when buying goods and services. It also aims to bring the best practice in private sector operations to the Government for the first time.

5.16 The ERG brings into one place the expertise and capabilities from across Government, e.g. the HM Treasury, Directgov (the official UK government website for citizens) and Buying Solutions (the national procurement partner for all UK public services and is part of the ERG) to tackle two key priorities:

- (a) making the Government more efficient – reducing operational overheads to give taxpayers better value and allow resources to be focused on key priorities; and

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- (b) radically reforming the way public services are provided to ensure they meet rising public expectations – using transparency to improve accountability, shifting power to people and creating a "Big Society".

5.17 The delegation also notes that the ERG oversees information and communications technology spending, procurement, marketing and consultancy spending and civil service expenses and recruitment. Much of its work has never been tried by the Government before, such as re-negotiating contracts with major suppliers across Government to reduce costs, and a freeze on all new advertising and marketing spending.

5.18 Because of the actions led by the ERG, hundreds of millions of pounds in efficiency savings have already been achieved. For instance, in respect of consultancy and procurement, total spending across Government has been reduced by more than £100 million following the introduction of new rules stating that any spending over £20,000 needs Ministerial and Permanent Secretary approval. Work has also been undertaken to re-negotiate contracts with the Government's key suppliers. When completed, this process is expected to deliver more than £800 million in savings.

Public bodies reform

5.19 The delegation was informed that there were a large number of non-departmental public bodies ("NDPBs") in the UK. An NDPB is defined as a "body which has a role in the processes of national Government, but is not a Government Department or part of one, and which accordingly operates to a greater or lesser extent at arm's length from Ministers". There are four types of NDPB:

- (a) Executive NDPBs – typically established in statute and carrying out executive, administrative, regulatory and/or commercial functions. Examples include national museums and galleries;
- (b) Advisory NDPBs – provide independent, expert advice to Ministers on a wide range of issues. An example is the Low Pay Commission;

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- (c) Tribunal NDPBs – have jurisdiction in a specialised field of law. An example is the Valuation Tribunals; and
- (d) Independent Monitoring Boards of Prisons, Immigration Removal Centres and Immigration Holding Rooms – formerly known as Boards of Visitors, these are independent "watchdogs" of the prison system.

5.20 As at 31 March 2009, there were 766 NDPBs sponsored by the UK Government. This consisted of 192 Executive NDPBs, 405 Advisory NDPBs, 19 Tribunal NDPBs and 150 Independent Monitoring Boards of Prisons, Immigration Removal Centres and Immigration Holding Rooms. In 2008-2009, the total expenditure incurred by Executive NDPBs was around £46.5 billion. Of this, around £38.4 billion was funded directly by the Government. The remainder was financed through a combination of fees and charges, levies and other sources of funding.

5.21 The delegation was advised that on 14 October 2010, the Cabinet Office Minister announced plans to substantially reform a large number of public bodies across Government. The reform process, which covered all of the Government's NDPBs as well as other bodies, such as some non-ministerial departments and some public corporations, aimed to re-invigorate the public's trust in democracy and ensure that the Government operates in a more efficient and business-like way.

5.22 According to the Cabinet Office, the reform is part of the UK Government's commitment to radically increase the transparency and accountability of all public services. The process represents the restoration of political accountability for decisions which affect people's lives and the way taxpayers' money is spent. It addresses people's concern about the old way of doing business, where the Ministers they voted for could often avoid taking responsibility for difficult and tough decisions by creating or hiding behind one of these NDPBs.

5.23 The Government has proposed reforming 481 bodies. Of these, 192 would cease to be public bodies and their functions would either be brought back into Government, devolved to local government, moved out of Government or abolished altogether. Examples include: devolving responsibility for the work of Development Corporations to local government; bringing organisations under more direct Ministerial control,

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such as the Child Maintenance and Enforcement Commission; and enabling organisations, such as the Design Council and the National Endowment for Science, Technology and the Arts, to become charities. As part of the reform, if it is clear that a public body has accomplished its mission and no longer needs to exist, it will be abolished.

5.24 The Government has introduced a Public Bodies Bill that will enable many of its plans to be implemented.

5.25 The delegation was informed that the move was generally supported by the public and the NDPBs. To implement the reform, the Cabinet Office has published guidance for government departments which sets out how they should review their NDPBs. If it is agreed that the NDPB is to be retained, the department concerned should then review the control and governance arrangements in place to ensure that the NDPB is operating in line with recognised principles of good corporate governance. The Cabinet Office will also set out these principles.



The delegation presented a souvenir to Mr Rob Wall, Head, Public Bodies and Public Appointments, Cabinet Office

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Visit programme

6.1 The delegation met with Mr Michael O'Higgins, Chairman of the Audit Commission, and the Chief Executive, Deputy Chairman, and two Commissioners of the Audit Commission to discuss the Audit Commission's work in relation to the provision of audit service to local public bodies, as well as the issues associated with the proposed disbandment of the Audit Commission by end 2012.

6.2 The delegation also visited the DCLG and received a briefing by relevant officials on the UK Government's plans about the future of local public audit.

Audit Commission for Local Authorities in England and Wales

6.3 The Audit Commission was established in 1983 under the Local Government Finance Act 1982. It is an independent public corporation responsible for the audit of accounts of local governments and other local public bodies, and driving economy, efficiency and effectiveness in local public services. The objective of the Audit Commission is to ensure that "local public bodies can be held to account for looking after public money, achieving more with less, and improving places and people's lives". Its remit covers around 11,000 local public bodies which together spend over £200 billion (HK\$2,430 billion) of public money each year.

6.4 The delegation notes that the main statutory functions of the Audit Commission are:

- (a) appointing auditors from the Audit Commission or private audit firms to provide assurance that public money is being safeguarded and properly accounted for, and assessing value for money across local governments, health, housing, community safety, fire and rescue, and other public services;
- (b) carrying out and publishing performance assessments of local governments, primary care trusts of the National

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Health Service, police authorities, fire and rescue services, and housing organisations;

- (c) conducting research and providing independent analysis for improving value for money in delivering local public services; and
- (d) helping public bodies detect fraud and error by comparing sets of data, such as payroll or benefits records.

6.5 The work of the Audit Commission is overseen by a governing board which comprises the Chairman, the Deputy Chairman, and a number of Commissioners. The board members are appointed by the DCLG following consultation with key stakeholders.

6.6 The day-to-day operations of the Audit Commission are managed by the management team comprising the Chief Executive and a team of managing directors.

6.7 With regard to the audit of accounts of local public bodies, the delegation was told that about 30% of the audits were carried out by private audit firms appointed by the Audit Commission. The auditors appointed by the Audit Commission will issue the corresponding annual audit reports to the audited bodies. In addition, the auditors may issue public interest reports on any significant issues identified in the course of the audit to draw the attention of the audited bodies and the public. All the reports are available to the public. For reports on significant matters, they can be debated publicly in local councils. However, the majority of the reports are not debated in public. The audited bodies concerned (except for some bodies such as health service bodies and port health authorities) are required to consider the public interest reports and the recommendations therein and publicise their decisions on any follow-up action to be taken.

6.8 As advised by the Audit Commission, it has the right of access to all documents, but it does not have parliamentary privileges and legal immunity. On the choice of subjects for value for money audits, the delegation was informed that normally it was the Audit Commission which made the decision. However, a local authority could request the

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Audit Commission to conduct an audit on a particular subject if it so wished.

6.9 In response to the delegation's question about how the Audit Commission followed up the implementation of its recommendations, the Audit Commission said that it would communicate the findings of its value for money studies to key stakeholders. It could also communicate significant findings to the relevant select committees of the Parliament. However, the Audit Commission did not have any formal procedure to ensure that the recommendations in its value for money studies would be considered by the relevant public bodies. Neither did it have power to enforce the implementation of the recommendations.



The delegation's group photo with representatives of the Audit Commission

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Department for Communities and Local Government

6.10 The DCLG was created in May 2006 to make policies on local government, housing, urban regeneration, planning, and fire and rescue. It is also responsible for issues relating to race equality and community cohesion in England, building regulations and fire safety. The DCLG is headed by the Secretary of State for Communities and Local Government ("SSCLG").

6.11 The delegation notes that under the Audit Commission Act 1998, the DCLG is responsible for:

- (a) appointing the board members of the Audit Commission, including the Chairman, the Deputy Chairman, and several Commissioners, after consultation with key stakeholders;
- (b) approving the appointment of the Controller of Audit of the Audit Commission;
- (c) directing the Audit Commission in discharging its functions (except for matters relating to a body subject to audit), after consultation with the Audit Commission and key stakeholders;
- (d) determining the remuneration and allowance of each member of the Audit Commission; and
- (e) lending money, if required, to the Audit Commission for discharging its functions and obligations, and such loan should be repaid.

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Dr Hon Philip WONG Yu-hong, Leader of the delegation, presented a souvenir to Mrs Julie Carney, Deputy Director (Local Government Quality and Performance), DCLG

Future of local public audit

Background of the proposed change

6.12 The delegation notes that in August 2010, the SSCLG of the new coalition government announced plans to disband the Audit Commission and introduce new arrangements for auditing England's local public bodies by the 2012-2013 financial year.

6.13 Regarding the rationale for the proposal, the DCLG explained that following its establishment in 1983, the Audit Commission had enhanced the professionalism and quality of local government audit, and its in-house audit practice continued to be well-respected. However, the Commission had also become overly focused on reporting to central government and supporting Whitehall oversight of local bodies. The Government considers that such centralised inspection and supervision is both an unnecessary burden on frontline services and is detrimental to the

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genuine local accountability that is essential if local services are to be efficient and meet the needs and aspirations of local communities.

6.14 The Government also considers that the current arrangements for local audit, whereby a single organisation, i.e. the Audit Commission, is the regulator, commissioner and provider of local audit services are inefficient and unnecessarily centralised. The Government therefore intends to move the work of the Audit Commission's in-house practice into the private sector. It will put in place new arrangements, with stringent safeguards to ensure independence, for councils to appoint their auditors, and for the appointment of auditors to local health bodies.

6.15 Accordingly, on 13 August 2010, the SSCLG announced plans to disband the Audit Commission. The decision is part of a fundamental shift in power away from central government to councils and communities, overturning decades of increasing central government control. The DCLG estimated that the change could save taxpayers £50 million a year.

New local audit regime

6.16 As to the underlying principles, the DCLG has stated that local bodies, i.e. councils and local health bodies will continue to be subject to robust and efficient auditing that follows the established principles of public audit. Any new local audit regime will provide full and appropriate accountability, ensuring that local authorities are effectively accountable to local communities for their spending decisions. Local audits would thus continue to have the wide scope of public audit, covering the audit of financial statements, regularity, propriety, and value for money.

6.17 The delegation also notes that under the decentralised audit regime proposed by the Government, the Audit Commission's responsibilities for overseeing and delivering local audit and performance assessment, and conducting research studies will cease. The local government will be free to appoint its own independent external auditor from the open market, and a new audit framework will be set up for the local health bodies. The regulation, monitoring and quality control of

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the audit work will be undertaken by the professional accountancy bodies, with independent oversight provided by the Financial Reporting Council⁶.

6.18 The NAO will provide the necessary oversight of auditing standards, including developing and maintaining the audit codes and supporting guidance and will report to the Parliament on the quality of audit of the local government and local health bodies. The NAO will also assume the responsibility for examining the economy, efficiency and effectiveness of local public bodies in implementing policies and delivering services when it conducts value for money studies on the activities of the central government departments.

6.19 Under the Government's plan, the Audit Commission is responsible for the 2011-2012 audit of local public bodies and is expected to close around December 2012. This timetable has yet to be confirmed and depends on the necessary legislation being passed.

6.20 To wind up the Audit Commission, the Government is considering transferring its in-house audit practice, which is the fifth largest audit practice in the UK, to the private sector, and transferring the Audit Commission's National Fraud Initiative to another public body.

6.21 As informed by the officials of the DCLG, the Government is developing proposals for the new local audit regime with the Audit Commission, the NAO, the Financial Reporting Council, local government, audit firms and other interested parties. The Audit Commission will be closely involved in this work as its participation is essential to secure an effective transition. The Government will also be seeking views widely on the proposals. A first consultation on the details of a new audit framework would be conducted shortly, and the Government envisages that it may subsequently publish a draft bill for

⁶ The Financial Reporting Council is an independent regulator responsible for setting standards for corporate reporting and actuarial practice, and monitoring and enforcing accounting and auditing standards in the UK. The Council oversees the regulatory activities of the professional accountancy bodies and operates independent disciplinary arrangements for public interest cases involving accountants and actuaries.

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pre-legislative scrutiny, ahead of the final introduction of legislation to the Parliament. Following such consultation and scrutiny, the Government intends to introduce the necessary legislation at the earliest opportunity.



The delegation received a briefing by officials of the DCLG on the proposed reform of the local audit regime in the UK

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Concerns of the Audit Commission

6.22 The Audit Commission considered the Government's proposal a political decision with an aim of achieving cost saving, and was put forward without thorough consideration of the complexities involved. It told the delegation that the Parliament had not yet been given a chance to debate the proposal and the related issues.

6.23 The Audit Commission further briefed the delegation on the key issues arising from the Government's proposal that had to be addressed.

6.24 The most important one is how to safeguard the independence of the auditors. The independence of audit appointments is one of the fundamental principles of public audit. It should not be set aside lightly. Independent appointment provides essential safeguards so that auditors can carry out their role freely, be free from influence by the audited body, and report objectively and impartially.

6.25 The Audit Commission has reservations about the proposal that local public bodies should have a duty to appoint their own auditors because it threatens auditors' independence. The Audit Commission considers that those responsible for raising taxes or spending and accounting for public money should not decide who scrutinises how they conduct their business. To do so would undermine public confidence in the stewardship of local public finances and the conduct of local public business. It would also threaten auditors' ability to pursue public interest investigations and to report publicly without fear or favour.

6.26 Another issue is the fees. According to the Audit Commission, without a central body managing the appointments process, there are concerns about what will happen to fees, particularly for smaller authorities in remote areas, which are less attractive to audit firms. Under the current arrangements, the Audit Commission could manage the distribution of work, ensuring a fair spread of urban and rural authorities and regular rotation of firms and even teams within firms. However, doing an individual contract in one of the more remote areas would make it a lot more expensive. Hence, there may not be an average increase or decrease in audit fees, but quite variable charges for different areas.

CHAPTER 6: Work of the Audit Commission for Local Authorities in England and Wales in the audit of accounts of local governments and local public bodies

6.27 Moreover, at present there are not many audit firms in the market that have the expertise to conduct audits of local public bodies. There may be the problem of market domination by the big audit firms.

6.28 The Audit Commission is also concerned about the absence of an effective means for collating and summarising the results of local audit work. Currently, the Audit Commission summarises the results of local audit work in its annual "Auditing the Accounts" publications. Although the Government has suggested that the NAO would be able to identify and report on wider issues of concern about local bodies' use of resources or common themes of interest, should such issues be identified by the audit process, the Government has not explained how the NAO would be aware of any such issues. The Government needs to give more careful thought on how to fill the gap that is created once the Audit Commission has disbanded.

6.29 The Audit Commission considers that after the disbandment of the Commission and the transfer of its in-house audit practice to the private sector, there is a strong case for maintaining a small residuary body. Such a body would preserve the strengths and practical advantages of the current arrangements. These include: ensuring auditors' independence to act without fear or favour; enabling local public bodies to benefit from the firms' current contracts, by transferring them to a successor body; and keeping the benefits of bulk procurement to minimise costs.

CHAPTER 6: Work of the Audit Commission for Local Authorities in England and Wales in the audit of accounts of local governments and local public bodies



The delegation exchanged views with Mr Michael O'Higgins, Chairman of the Audit Commission (third from the right) and Mr Eugene Sullivan, Chief Executive of the Audit Commission (first from the right), on the future of local public audit in the UK

CHAPTER 7: Meetings with other persons, committees and organisations

Visit programme

7.1 The delegation received a briefing on the parliamentary process for scrutinising the Budget. The delegation also met with the All-Party Parliamentary China Group and visited the Embassy of the People's Republic of China in the UK and the London ETO.

Parliamentary process for scrutinising the Budget

7.2 The delegation notes that in March/April (or occasionally at other times⁷) each year, the Chancellor of Exchequer delivers his or her Budget Speech to the House of Commons, which comprises a summary of the economic situation and a detailed account of the measures needed to raise the funds required. After the Speech, the HM Treasury will publish the Financial Statement and Budget Report (often referred to as the "Red Book") and the Economic and Fiscal Strategy Report. These two Budget documents provide a more detailed analysis of the policy announcements, particularly describing the features of the national economy in a global context and reporting on a range of economic and fiscal measures.

7.3 After the Budget Speech, the Chancellor of Exchequer formally moves a motion to give immediate provisional effect to certain tax proposals (for example, increases in duty on tobacco, alcoholic drinks and petrol). The next motion to be formally moved is usually the Amendment of the Law resolution, a general resolution which gives authority for the law relating to the fiscal matter to be altered. It is on this motion that the general debate on the Budget takes place, usually stretching over four days.

⁷ In election years, after a change of government, a Budget will usually be introduced by the incoming Chancellor of Exchequer, regardless of whether the outgoing Chancellor of Exchequer has already delivered one. The new coalition government delivered its first Budget on 22 June 2010, shortly after winning the general election in May 2010. The Budget was dubbed as an "emergency budget", as its purpose was to reduce the national debt accumulated under the Labour Government.

CHAPTER 7: Meetings with other persons, committees and organisations

7.4 At the end of the last day of the Budget debate, the House of Commons will vote on a string of Budget resolutions, called Ways and Means, that will form the taxation elements of the Finance Bill⁸. Once the Ways and Means resolutions have all been agreed upon, a Finance Bill is presented to the House to make the tax proposals announced in the Budget into law.

7.5 The Finance Bill is brought in to give legal effect to the Budget resolutions. It deals with the revenue side of government finances, including changes to the levels and types of taxation and duties; changes to the administration of the tax system; and renewal of taxes already in force.

7.6 The second reading debate on the Finance Bill usually lasts a single day and once the principle of the Bill has been approved, the Bill moves on to the committee stage. The Bill is split at the committee stage. A Committee of the whole House will first consider the most significant and controversial clauses. The remainder of the Bill will then be debated in a standing committee, after which the Bill passes back to the House of Commons for its report stage and third reading. After the Bill goes through the House of Commons, it will be passed to the House of Lords. Consideration there is essentially a formality because of the convention that the House of Lords cannot alter or reject the Bill. The last step of the Budget cycle is for the Bill to receive Royal Assent.

7.7 As both the Budget and the Finance Bill are debated in the Parliament, the House of Commons can reject or amend the Government's taxation proposals theoretically. Rejecting the Finance Bill would be equivalent to a vote of no confidence in the Government and could lead to a fall of the Government. The delegation, however, was informed that as the majority of MPs belonged to the governing party, this was unlikely to happen in reality.

7.8 The delegation further notes that there is also scrutiny of the Budget by the Treasury Committee of the House of Commons, which takes written and oral evidence from the private sector, independent

⁸ The Budget resolutions, published earlier by the HM Treasury after the Budget Speech, each relates to a specific taxation proposal intended to be included in the Finance Bill.

CHAPTER 7: Meetings with other persons, committees and organisations

economists and tax experts, officials of the HM Treasury and the Chancellor of Exchequer, etc. on the implications of the Budget. The Treasury Committee will then produce a report. Other departmental select committees may also investigate the impact of the Budget on their areas of responsibility, such as transport, business, innovation and skills.

7.9 On 23 March 2011, the Chancellor of Exchequer presented the 2011 Budget to the House of Commons and the delegation had the opportunity to listen to his Budget Speech.



Mr David Ash, Deputy Head (Finance), Scrutiny Unit, Department of Chamber and Committee Services, House of Commons, briefed the delegation on the budget scrutiny procedures

All-Party Parliamentary China Group

7.10 The All-Party Groups of the UK Parliament are informal cross-party interest groups that have no official status within the Parliament and are not accorded any powers or funding by the Parliament. Their interests are primarily on a particular topic (subject groups) or a particular country or region (country groups). The All-Party Groups

CHAPTER 7: Meetings with other persons, committees and organisations

mainly comprise Members of both Houses and sometimes include Ministers and individuals from outside the Parliament.

7.11 The All-Party Parliamentary China Group ("APPCG") was established in 1997 as an All-Party Group of the Parliament. It is responsible for carrying on dialogue with China and assisting in the development of all aspects of the UK-China bilateral relationship. As at June 2010, the APPCG had over 350 members.

7.12 Specifically, the APPCG's functions are to facilitate exchanges with the National People's Congress of China; develop dialogue with the Chinese ambassador and embassy staff in London; engage with the Chinese community in the UK; and strengthen bilateral ties and promote discussion on issues such as governance, the rule of law, parliamentary procedure and democracy.

7.13 The delegation notes that the APPCG signed a Memorandum of Understanding with its counterpart organisation in the National People's Congress, i.e. the China-UK Friendship Group, in January 2006.

7.14 The delegation met with Mr Mark Hendrick, MP, Chairman of the APPCG, and other members of the APPCG. They exchanged views on issues of mutual concern, including the exchange rate and convertibility of Renminbi, the linked exchange rate system implemented in Hong Kong, and the increased tuition fees of universities in the UK.

CHAPTER 7: Meetings with other persons, committees and organisations

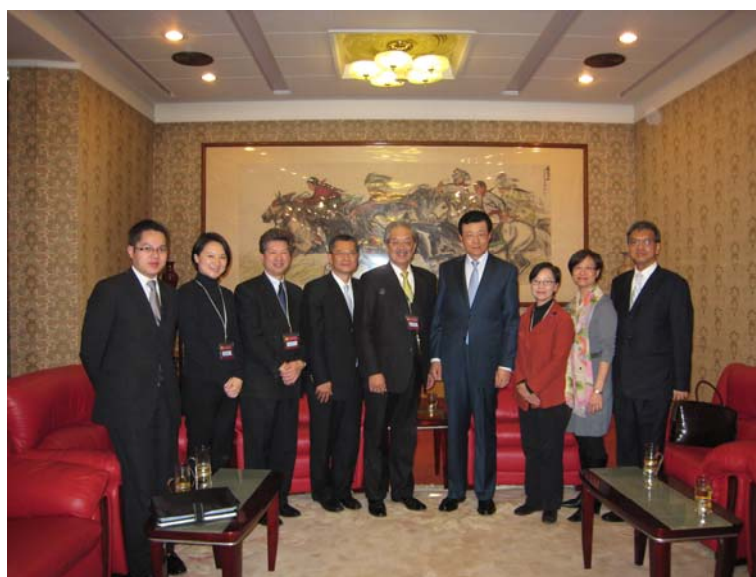


Meeting with the All Party Parliamentary China Group, UK Parliament

CHAPTER 7: Meetings with other persons, committees and organisations

Visits to other organisations

7.15 The delegation met with His Excellency LIU Xiaoming, Chinese Ambassador to the UK, at the Embassy of the People's Republic of China in the UK and received a briefing on the work of the Embassy. The delegation also visited the London ETO and received a briefing by Mrs Agnes Allcock, Director-General of the London ETO, on the work of the ETO.



*Meeting with His Excellency LIU Xiaoming,
Chinese Ambassador to the UK*



*The delegation at the Embassy of
the People's Republic of China in the UK*

CHAPTER 7: Meetings with other persons, committees and organisations



Briefing by Mrs Agnes Allcock, Director-General, London ETO

CHAPTER 8: Observations of the delegation

General

8.1 The delegation is of the view that the information obtained during the visit on the mechanism, operation, practices and procedures of the Commons PAC in examining the value for money reports produced by the NAO has provided useful experience for the LegCo PAC in Hong Kong. The practices and procedures of the two Committees are different but there are also similarities. The observations of the delegation are set out in the ensuing paragraphs.

Observations

Work of the two Committees

8.2 The delegation notes that similar to the LegCo PAC, which is responsible for the examination of the value for money reports prepared by the Director of Audit, the primary role of the Commons PAC is the examination of the value for money reports presented by the C&AG to the UK Parliament.

8.3 In the UK, the National Audit Act 1983 provides the statutory framework for the conduct of value for money studies by the NAO. In Hong Kong, however, the Director of Audit does not carry out value for money audits under a statutory framework. Instead, such audits are conducted under a set of guidelines ("Audit Guidelines") agreed between the LegCo PAC and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

8.4 Similar to the C&AG, in conducting value for money audits, the Director of Audit is not entitled to question the merits of policy objectives, though he may question the economy, efficiency and effectiveness of the means used to achieve them.

8.5 In the UK, the independence of the C&AG is safeguarded by, amongst others, the fact that the C&AG is an Officer of the House of Commons and by the National Audit Act 1983. In Hong Kong, the independence of the Director of Audit is provided for in Article 58 of the Basic Law of the Hong Kong Special Administrative Region, which states that "A Commission of Audit shall be established in the Hong

CHAPTER 8: Observations of the delegation

Kong Special Administrative Region. It shall function independently and be accountable to the Chief Executive."

8.6 The delegation also notes that the process of work of the two Committees in examining the value for money study reports is very similar. Both Committees hold public hearings to take oral evidence from the relevant parties. Occasionally, written questions would be sent to the government departments and organisations concerned. Upon completion of the examination, the Committees would issue a report setting out the evidence taken and their conclusions and recommendations.

Programme of work

8.7 In the UK, the Commons PAC meets regularly throughout the year to examine the value for money reports submitted by the C&AG. There is no specific time limit for the Commons PAC to complete and present its reports. Unlike the Commons PAC, the LegCo PAC has two three-month work cycles each year, which begins with the tabling of the Director of Audit's Report in the LegCo and ends with the tabling of the Committee's report in the LegCo.

8.8 The delegation finds that the Commons PAC examines more value for money reports and publishes more reports each year.

8.9 In the UK, the NAO undertakes about 60 value for money studies each year and the Commons PAC holds public hearings to take evidence on about two-thirds of them. The Commons PAC issues a report separately on each subject it has examined and each report is usually based on one day's oral evidence. In the 2009-2010 session, the Commons PAC published 33 reports.

8.10 In Hong Kong, the two Director of Audit's Reports in each year normally contain a total of 19 separate value for money audit reports, which are presented as chapters. The LegCo PAC does not hold public hearings on all the chapters, but selects for detailed examination only those chapters which, in its view, contain more serious allegations of irregularities or shortcomings, and reports on all the chapters that have been selected for detailed examination.

CHAPTER 8: Observations of the delegation

8.11 In the 2010-2011 session, the LegCo PAC conducted public hearings on a total of six chapters contained in two Director of Audit's Reports (Reports No. 55 and 56), and published the results of its examination in two reports (PAC Reports No. 55 and 56).

8.12 The difference in the style of presentation of conclusions by the Commons PAC and the LegCo PAC is worthy of note. The LegCo PAC normally includes in each of its conclusions a key word or phrase that reflects the intensity of its criticism on an identified irregularity, e.g. the Committee "is disappointed" or "expresses grave dissatisfaction" at the irregularity, "finds (the irregularity) unacceptable", or "condemns" the responsible official for a serious irregularity, etc. The key words or phrases selected by the Committee often become the focus of media reports when the Committee publishes a report. The Commons PAC, on the other hand, does not have a similar practice.

Taking of evidence

8.13 Compared with the Commons PAC, the LegCo PAC devotes more time to holding public hearings to take oral evidence from witnesses.

8.14 The Commons PAC usually holds one public hearing of about two hours to examine one audit report. For the LegCo PAC, depending on the complexity of the chapters in the Director of Audit's Report, it usually holds not less than two public hearings on a chapter and each hearing lasts two hours or more. For example, the Committee held four public hearings lasting a total of 14 hours to examine the chapters of "Administration of the Direct Subsidy Scheme" and the "Governance and administration of Direct Subsidy Scheme schools" in the Director of Audit's Report No. 55. When studying the chapter of "Hong Kong 2009 East Asian Games" in the Director of Audit's Report No. 56, the Committee held two public hearings lasting 5.5 hours in total.

8.15 The delegation observes that the witnesses invited by the Commons PAC to attend its public hearings are normally Accounting Officers who are senior civil servants, instead of Ministers who are politicians. Recently, it has also started to take evidence from witnesses outside the civil service, such as the charities, private providers and consumers who are affected by a value for money study.

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8.16 The practice in Hong Kong is not entirely the same. Same as the Commons PAC, the LegCo PAC takes evidence from the Controlling Officers of the heads of revenue or expenditure which the Director of Audit has referred to in his audit report, and the Controlling Officers are senior civil servants. The LegCo PAC, however, also invites the relevant Directors of Bureaux who are political appointees to give evidence at its public hearings when the matter under consideration involves a question of policy or principle. Besides, the LegCo PAC does not have the practice of taking evidence from people or organisations on the ground of their being affected by a value for money study.

8.17 The delegation finds the Commons PAC's practice a useful reference. In deciding which witnesses should be invited to its public hearings in future, the LegCo PAC can consider whether it will be useful and appropriate to take evidence from people or organisations affected by the audit study, apart from the Controlling Officer and Director of Bureau concerned.

Following up the Committees' reports

8.18 As regards the follow-up to the reports issued by the two Committees, in both Hong Kong and the UK, the Government responds to the reports by way of Government Minutes/Treasury Minutes, which indicate what action the Government has taken or proposes to take to rectify any irregularities or value for money deficiencies that have been identified or, if necessary, explain why it does not intend to take action. In addition, the departments also provide annual progress reports to the Committees on matters outstanding in the Government Minutes/Treasury Minutes.

8.19 The delegation notes that there is a standing arrangement in the House of Commons whereby a motion debate is held every six months to take note of the reports of the Commons PAC and the government replies that have been given since the last debate. The arrangement in the LegCo is different. Upon tabling the Committee's report in the LegCo, the PAC Chairman delivers a speech in the LegCo to highlight the Committee's main findings and recommendations. Where the Committee considers it appropriate to do so, the PAC Chairman moves a motion for debate in the LegCo on a specific subject in the Committee's report. On two occasions in the 2010-2011 session, the PAC Chairman moved a motion "to take note of" a chapter in the Committee's report.

CHAPTER 8: Observations of the delegation

8.20 The Commons PAC has decided to be more rigorous in monitoring the implementation of its recommendations. The Committee will set aside two sessions a year to recall witnesses where it believes departments have failed to implement the changes with which the Government has agreed. The delegation is impressed by this new initiative. The LegCo PAC could draw on this experience to identify ways to ensure that its recommendations would be implemented more timely and seriously.

Relationship with the auditors

8.21 Both the Commons PAC and the LegCo PAC have a close working relationship with the auditors, i.e. the C&AG and the Director of Audit. The auditors provide strong support to the Committees in examining the value for money reports. For example, they provide briefing papers and hold briefing sessions to assist the Committees in preparing for the public hearings, and attend all public hearings to provide assistance. They also help monitor the progress made by government bureaux and departments in implementing the Committees' recommendations.

8.22 The delegation notes that unlike the arrangement in the LegCo, the C&AG also assists the Commons PAC in its internal deliberations and the preparation of its reports. The C&AG and the relevant NAO study team members are present when the Commons PAC deliberates, and the study team is responsible for preparing the draft report of the Committee for consideration by the Chair and members of the Commons PAC. In Hong Kong, however, the Director of Audit and his staff do not participate in the LegCo PAC's internal deliberations or the preparation of its reports.

8.23 Regarding the value for money programme, the delegation is impressed that the Commons PAC is formally involved in determining the NAO's work programme. While the C&AG has complete discretion in deciding the subjects of his value for money audits under the National Audit Act 1983, the same legislation also requires him to consider the Commons PAC's representations when planning his audit programme. It is an established arrangement for the C&AG to formally consult the Commons PAC annually on his two-year forward programme of value for money studies. The Commons PAC's suggestions are taken into account by the C&AG. The C&AG also keeps the Commons PAC informed of

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upcoming value for money reports about three months ahead of the issuance of the reports.

8.24 In Hong Kong, under the Audit Guidelines, the Director of Audit is not required to consult the LegCo PAC on his programme of work, although members of the Committee, like other LegCo Members, have suggested to him matters for study occasionally. According to the practice adopted by the LegCo PAC, the Committee will hold informal consultations with the Director of Audit from time to time, so that it can suggest fruitful areas for value for money study by the Director of Audit.

8.25 The delegation sees the merit of the LegCo PAC having closer communication with the Director of Audit about the subjects of his value for money studies and his programme of work. The LegCo PAC and the Director of Audit can explore how this can be achieved without compromising the Director of Audit's independence as specified in Article 58 of the Basic Law.

8.26 Recently, the Commons PAC has successfully secured changes to the Standing Orders so that the Committee can recruit its own advisers and subject specialists to provide it with advice independent of the NAO. While the LegCo PAC has not found it necessary to seek expert advice on its study so far, the delegation shares the view that the Committee should consider engaging independent experts to provide advice to members as and when required.

Forward-looking approach in conducting value for money studies

8.27 Up to March 2011, the NAO has already published five value for money reports on the preparations for hosting the London Olympic Games in 2012. The studies were conducted in advance of spending by relevant departments and organisations.

8.28 The delegation considers the NAO's forward-looking approach in conducting value for money studies on the different aspects of the preparation for the London Olympic Games a useful experience. Members share the view that for a major event or project which takes up substantial public funding and takes a number of years to prepare and implement, conducting value for money audits on it as and when each stage of the preparation process has been completed will be more useful than conducting reviews on the whole project after completion. Such

CHAPTER 8: Observations of the delegation

approach can enable the auditors and the Committees to make timely recommendations to the responsible government bureaux and departments for prompt improvement and rectification.

8.29 The delegation notes that in Hong Kong, the Director of Audit has also adopted the practice of performing periodic audits of major events/projects at suitable milestones before their completion. It expects the Director of Audit to carry out more such audits as and when appropriate.

Conclusion

8.30 The delegation considers the visit very rewarding. It has enabled members to gain an in-depth understanding of the mechanism, operation, practices and procedures of the Commons PAC. Members understand that the dissimilarities are due to different political tradition and situation of the UK Parliament and the LegCo.

8.31 The delegation is particularly impressed by the new initiatives introduced by the Commons PAC of the coalition government to strengthen the impact of its findings and recommendations and to enhance its effectiveness in ensuring that public money has been spent properly and cost-effectively, especially at a time when the UK Government is embarking on a series of public expenditure cuts. Members find the initiatives enlightening and practicable and worthy of further exploration by the LegCo PAC. Members will certainly make reference to the practices and experience of the Commons PAC in studying how the LegCo PAC's practices and procedures can be enhanced to help ensure that best value for money is realised in the delivery of public services.

8.32 The meetings with other people and organisations, including the NAO, the HM Treasury and the Audit Commission, have provided the delegation with first-hand information on the public audit system in the UK and the challenges ahead.

8.33 Finally, members believe that the visit has enhanced the friendship between members of the Commons PAC and those of the LegCo PAC and made a start for their further exchanges on issues of common concerns.

Public Accounts Committee

Duty visit to London of the United Kingdom
from 20 to 25 March 2011

Visit Programme

20 March 2011 (Sunday)

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|---------|-------------------------------------|
| 1:05 am | Departure from Hong Kong for London |
| 6:20 am | Arrival in London |

21 March 2011 (Monday)

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|------------|---|
| 9:30 am | Briefing by Mrs Agnes Allcock, JP, Director-General, Hong Kong Economic and Trade Office (London) ("London ETO") |
| 11:00 am | Courtesy Call on His Excellency LIU Xiaoming, Chinese Ambassador to the United Kingdom ("UK") |
| 12:00 noon | Luncheon hosted by Mrs Allcock, Director-General, London ETO |
| 4:00 pm | Observing the debate on the Prime Minister's motion concerning the use of the UK armed forces and military assets to enforce the No Fly Zone in Libya (United Nations Security Council Resolution 1973) in the House of Commons |

22 March 2011 (Tuesday)

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| 9:10 am | Tour of the Houses of Parliament |
| 10:45 am | Meeting with the Committee of Public Accounts, House of Commons ("Commons PAC"), UK Parliament |

- 3:00 pm Meeting with the All Party Parliamentary China Group, UK Parliament
- 4:00 pm Briefing on Budget Procedures by Mr David Ash, Deputy Head (Finance), Scrutiny Unit, Department of Chamber and Committee Services, House of Commons

23 March 2011 (Wednesday)

- 9:30 am Meeting with Mrs Julie Carney, Deputy Director (Local Government Quality and Performance), Department for Communities and Local Government
- 11:30 am Observing the Oral Question Time – Northern Ireland in the House of Commons
- 12:00 noon Observing the Prime Minister's Question Time in the House of Commons
- 12:30 pm Observing the delivery of the Chancellor of the Exchequer's Budget Statement in the House of Commons
- 3:30 pm Meeting with the Audit Commission for Local Authorities in England and Wales
- Mr Michael O'Higgins, Chairman
 - Mr Eugene Sullivan, Chief Executive
 - Mr Bharat Shah, Deputy Chairman
 - Ms Janet Baker, Commissioner
 - Mr Brian Landers, Commissioner

24 March 2011 (Thursday)

- Meetings in the National Audit Office ("NAO")
- 9:30 am Meeting with Mr Steve Luxford, Parliamentary Relations Officer, on the role and responsibilities of the NAO in reference to supporting the Commons PAC and other select committees

- 10:00 am Meeting with Ms Helen Holden, Audit Manager, Value For Money ("VFM") Practice and Quality Team, on VFM (performance audit), programming and planning
- 10:30 am Meeting with Mr Peter Morgan, Audit Manager, Financial Audit Practice and Quality Team, on the NAO's contributions to current developments in government accounting and auditing
- 11:00 am Meeting with Mr Keith Hawkeswell, Director, Department for Culture, Media and Sport VFM, on the NAO study: Preparations for the 2012 Olympic and Paralympic Games
- 11:45 am Official lunch hosted by Dr Hon Philip WONG Yu-hong, GBS, Chairman of the Public Accounts Committee
- 2:00 pm Meeting with representatives of Her Majesty's Treasury and the Cabinet Office
- Sir Nicholas Macpherson, Permanent Secretary to the Treasury
 - Mr Larry Pinkney, Deputy Head, Financial Reporting Policy, and Financial Reporting Advisory Board Secretary
 - Mr Rob Wall, Head, Public Bodies and Public Appointments, Cabinet Office
 - Mr Marius Gallaher, Alternate Treasury Officer of Accounts
- 10:05 pm Departure from London for Hong Kong

25 March 2011 (Friday)

5:45 pm Arrival in Hong Kong

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Acronyms and Abbreviations

| | |
|----------------------|---|
| APPCG | All-Party Parliamentary China Group |
| Audit Commission | Audit Commission for Local Authorities in England and Wales |
| C&AG | Comptroller and Auditor General |
| COINS | Combined Online Information System |
| Commons PAC | Committee of Public Accounts of the House of Commons |
| DCLG | Department for Communities and Local Government |
| ERG | Efficiency and Reform Group |
| LegCo | Legislative Council |
| London ETO | Hong Kong Economic and Trade Office in London |
| London Olympic Games | London 2012 Olympic and Paralympic Games |
| MPs | Members of Parliament |
| NAO | National Audit Office |
| NDPBs | Non-departmental public bodies |
| OBR | Office for Budget Responsibility |
| PAC | Public Accounts Committee |
| SSCLG | Secretary of State for Communities and Local Government |
| TOA | Treasury Officer of Accounts |
| TPAC | Public Accounts Commission |
| UK | United Kingdom |