

**REPORT OF THE  
PUBLIC ACCOUNTS COMMITTEE  
ON  
THE REPORT OF THE DIRECTOR OF AUDIT  
ON  
THE ACCOUNTS OF THE GOVERNMENT OF  
THE HONG KONG SPECIAL ADMINISTRATIVE REGION  
FOR THE YEAR ENDED  
31 MARCH 2021**

*October 2021*

## CONTENTS

	<u>Paragraph</u>	<u>Page</u>
<b>Part 1</b>	<b>Introduction</b>	
	The Establishment of the Committee	1 1
	Membership of the Committee	2 1
<b>Part 2</b>	<b>Committee Proceedings</b>	
	Consideration of the Director of Audit's reports	1 - 3 2
	Special arrangements for this Report	4 2 - 3
	The Committee's Report	5 3
	Acknowledgements	6 3
<b>Part 3</b>	<b>Confidentiality Undertakings</b>	
	Confidentiality undertakings by members of the Committee	1 - 2 4
<b>Part 4</b>	<b>Observations of the Public Accounts Committee on the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2021</b>	1 - 2 5 - 6
	<b>SIGNATURES OF THE CHAIRMAN, DEPUTY CHAIRMAN AND MEMBERS OF THE COMMITTEE</b>	7

## CONTENTS

	<u>Page</u>
<b>Appendix 1</b>	Rules of Procedure of the Legislative Council of the Hong Kong Special Administrative Region
	8 - 9
<b>Appendix 2</b>	Paper presented to the Provisional Legislative Council by the Chairman of the Public Accounts Committee at the meeting on 11 February 1998 on Scope of Government Audit in the Hong Kong Special Administrative Region - 'Value for Money Audits'
	10 - 12

*Part 1*

*Introduction*

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**The Establishment of the Committee** The Public Accounts Committee is established under Rule 72 of the Rules of Procedure of the Legislative Council of the Hong Kong Special Administrative Region, a copy of which is attached in *Appendix 1* to this Report.

2. **Membership of the Committee** The following Members are appointed by the President under Rule 72(3) of the Rules of Procedure to serve on the Committee:

**Chairman** : Hon Abraham SHEK Lai-him, GBS, JP

**Deputy Chairman** : Hon Paul TSE Wai-chun, JP

**Members** : Hon Steven HO Chun-yin, BBS, JP  
Hon SHIU Ka-fai, JP  
Hon YUNG Hoi-yan, JP  
Hon LAU Kwok-fan, MH, JP  
Hon Tony TSE Wai-chuen, BBS, JP

**Clerk** : Wendy JAN

**Legal Adviser** : Timothy TSO

**Consideration of the Director of Audit's reports** According to section 12 of the Audit Ordinance (Cap. 122), the Director of Audit shall, within the period of seven months after the close of the financial year (i.e. on or before 31 October), or such longer period as the Chief Executive may determine, prepare and submit to the President of the Legislative Council ("LegCo") a report on government accounts. Within the period of one month, or such longer period as the LegCo President may determine, after the receipt of the report from the Director of Audit, a copy of the report shall be laid before LegCo.

2. Moreover, in accordance with the Paper tabled in the Provisional LegCo on 11 February 1998 relating to Value for Money ("VFM") audits (in *Appendix 2*), the Director of Audit shall report his findings on VFM audits in LegCo twice each year.<sup>1</sup> Normally, the Director of Audit submits to the LegCo President the report on government accounts together with his first VFM audit report in late October each year, and copies of both reports are laid before LegCo in November each year.

3. According to Rules 72(9) and (10) of the Rules of Procedure of LegCo (in *Appendix 1*), the Public Accounts Committee shall normally make its report upon the report of the Director of Audit within three months of the date on which the Director of Audit's report is laid on the table of LegCo.

4. **Special arrangements for this Report** Given that the Sixth LegCo will stand prorogued from 30 October 2021, the Director of Audit cannot follow the usual practice as described above and submit his report on the Accounts of the Government for the year ended 31 March 2021 ("Report on Government Accounts") and his first VFM audit report (i.e. VFM Audit Report No. 77) to the LegCo President in late October 2021 for tabling in LegCo in November 2021. In the circumstances, the Director of Audit has, with the agreement of the LegCo President, the Public Accounts Committee and the Financial Services and the Treasury Bureau, advanced the submission of his Report on Government Accounts to the LegCo President to 10 September 2021 for its tabling in LegCo on 15 September 2021, so that the Public Accounts Committee can consider his Report on Government Accounts before

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<sup>1</sup> The first VFM audit report shall be submitted to the LegCo President within seven months of the end of the financial year (i.e. on or before 31 October), or such longer period as the Chief Executive may determine. Within one month, or such longer period as the LegCo President may determine, copies shall be laid before LegCo. The second VFM audit report shall be submitted to the LegCo President by 7 April each year, or such date as the Chief Executive may determine. By 30 April, or such date as the LegCo President may determine, copies shall be laid before LegCo.

the prorogation of the Sixth LegCo. As for VFM Audit Report No. 77, the Director of Audit has sought the Chief Executive's approval to defer its submission to the LegCo President until the Seventh LegCo but not later than 7 April 2022 (i.e. the deadline for submission of VFM Audit Report No. 78).

5. **The Committee's Report** This Report by the Public Accounts Committee corresponds with the Director of Audit's Report on Government Accounts, which was tabled in LegCo on 15 September 2021.

6. **Acknowledgements** The Committee wishes to record its appreciation of the support given by the Legal Adviser and the Clerk. The Committee is also grateful for the effort and professionalism demonstrated by the Director of Audit and his staff in completing his Report within the tight schedule.

*Part 3*

*Confidentiality Undertakings*

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**Confidentiality undertakings by members of the Committee** To enhance the integrity of the Committee and its work, members of the Public Accounts Committee have signed a confidentiality undertaking. Members agree that, in relation to the consideration of the Director of Audit's reports, they will not disclose any matter relating to the proceedings of the Committee that is classified as confidential, which shall include any evidence or documents presented to the Committee, and any information on discussions or deliberations at its meetings, other than at meetings held in public. Members also agree to take the necessary steps to prevent disclosure of such matter either before or after the Committee presents its report to the Council, unless the confidential classification has been removed by the Committee.

2. A copy of the Confidentiality Undertakings signed by members of the Committee has been uploaded onto the Legislative Council website.

*Observations of the Public Accounts Committee on the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2021*

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The Audit Commission examined and audited the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2021.

2. In considering the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2021 (Cash-based), the Committee noted that the Audit Commission found no material misstatements, individually or in aggregate, of the Accounts. The Committee also noted in particular that:

General Revenue Account

- the revenue from "Head 3 - Internal Revenue" (\$330.8 billion), which mainly included profits tax, salaries tax and stamp duties, generated 60% of the total revenue in 2020-2021;
- the internal revenue from profits tax for the year recorded a decrease of 13% from \$155.9 billion in 2019-2020 to \$135.5 billion in 2020-2021, while the internal revenue from salaries tax increased by 49% from \$50.4 billion in 2019-2020 to \$75 billion in 2020-2021;<sup>1</sup>
- the non-recurrent expenditure of \$251.9 billion represented the largest share of the total government expenditure (33%) in 2020-2021. It mainly included the injections into the Anti-epidemic Fund (\$132.3 billion), the Cash Payout Scheme (\$65 billion) and the 100% Personal Loan Guarantee Scheme (\$8 billion);
- during the financial year 2020-2021, the Administration continued to pursue the repayment of the outstanding advances of around \$1.2 billion from the United Nations High Commissioner for Refugees, but had not received any repayments so far. The Administration had taken note of and would carefully consider the Committee's suggestion of writing off the outstanding payment;

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<sup>1</sup> The increase of \$24.6 billion (49%) in respect of salaries tax was mainly due to the deferral of tax collection from 2019-2020 to 2020-2021.



## Part 4

### *Observations of the Public Accounts Committee on the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2021*

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#### Capital Works Reserve Fund

- the balance of the Capital Works Reserve Fund as at 31 March 2021 amounted to \$130.7 billion, representing a decline of \$46.1 billion, or 26%, against the preceding year, mainly due to a drop of \$53 billion in land premium;
- an increase of \$101.8 million in the refund of overpayment of land premium under the Capital Works Reserve Fund in 2020-2021 was mainly related to the refunds made under the Administration's relief measure for short-term waiver holders;<sup>2</sup> and

#### Land Fund

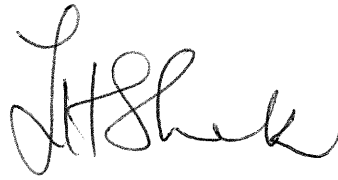
- in June 2020, \$27.3 billion of the Land Fund (via the Future Fund) was allocated to invest in Cathay Pacific Airways Limited. On 12 August 2020, \$19.5 billion was drawn from the assets of the Land Fund placed with the Exchange Fund for the investment in Cathay Pacific Airways Limited. The remaining \$7.8 billion had been earmarked for a bridge loan to Cathay Pacific Airways Limited for drawdown in accordance with a facility agreement.

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<sup>2</sup> Fee concessions of 50% for eligible short-term waiver holders for community and business use (e.g. those in retail and catering industries) were implemented in October 2019. For waiver fees already paid by them in advance (mainly on a quarterly basis), the resultant overpayments were refunded to them. These relief measures were further enhanced in 2020-2021. With effect from April 2020, fee concessions were increased from 50% to 75% and extended to businesses not covered previously (e.g. depots for public transport operators). With effect from April 2020, 100% fee concessions were also given to waiver holders whose businesses were closed because of the mandatory closure orders relating to the prevention of Coronavirus Disease 2019.

SIGNATURES OF THE CHAIRMAN,  
DEPUTY CHAIRMAN AND MEMBERS OF THE COMMITTEE

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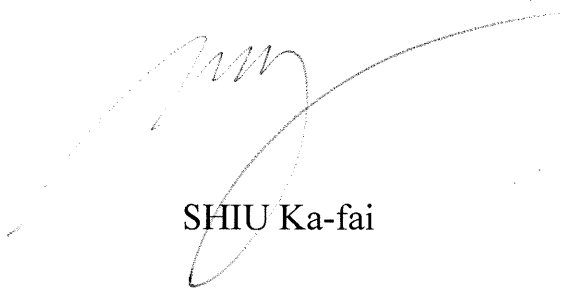
Abraham SHEK Lai-him  
(Chairman)



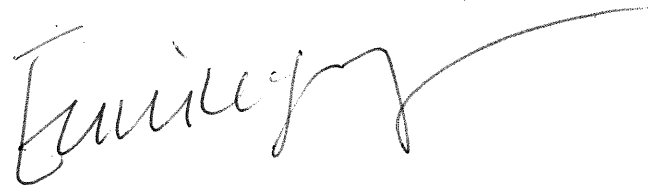
Paul TSE Wai-chun  
(Deputy Chairman)



Steven HO Chun-yin



SHIU Ka-fai



YUNG Hoi-yan



LAU Kwok-fan



Tony TSE Wai-chuen

15 September 2021

**RULES OF PROCEDURE OF  
THE LEGISLATIVE COUNCIL OF  
THE HONG KONG SPECIAL ADMINISTRATIVE REGION**

**72. Public Accounts Committee**

(1) There shall be a standing committee, to be called the Public Accounts Committee, to consider reports of the Director of Audit –

- (a) on the accounts of the Government;
- (b) on such other accounts required to be laid before the Council as the committee may think fit; and
- (c) on any matter incidental to the performance of his duties or the exercise of his powers as the committee may think fit.

(2) The committee shall also consider any report of the Director of Audit laid on the Table of the Council which deals with examinations (value for money audit) carried out by the Director relating to the economy, efficiency and effectiveness of any Government department or public body or any organization to which his functions as Director of Audit extend by virtue of any Ordinance or which receives public moneys by way of subvention.

(3) The committee shall consist of a chairman, deputy chairman and 5 members who shall be Members appointed by the President in accordance with an election procedure determined by the House Committee. *(L.N. 214 of 2005)*

(3A) The chairman and 2 other members shall constitute a quorum of the committee. *(L.N. 214 of 2005)*

(3B) In the event of the temporary absence of the chairman and deputy chairman, the committee may elect a chairman to act during such absence. *(L.N. 214 of 2005)*

(3C) All matters before the committee shall be decided by a majority of the members voting. Neither the chairman nor any other member presiding shall vote, unless the votes of the other members are equally divided, in which case he shall give a casting vote. *(L.N. 214 of 2005)*

(4) A report mentioned in subrules (1) and (2) shall be deemed to have been referred by the Council to the committee when it is laid on the Table of the Council.

(5) Unless the chairman otherwise orders, members of the press and of the public shall be admitted as spectators at meetings of the committee attended by any person invited by the committee under subrule (8).

(6) The committee shall meet at the time and the place determined by the chairman. Written notice of every meeting shall be given to the members and to any person invited to attend a meeting at least 5 clear days before the day of the meeting but shorter notice may be given in any case where the chairman so directs.

(7) *(Repealed L.N. 214 of 2005)*

(8) The chairman or the committee may invite any public officer, or, in the case of a report on the accounts of or relating to a non-government body or organization, any member or employee of that body or organization, to give information or any explanation or to produce any records or documents which the committee may require in the performance of its duties; and the committee may also invite any other person to assist the committee in relation to any such information, explanation, records or documents.

(9) The committee shall make their report upon the report of the Director of Audit on the accounts of the Government within 3 months (or such longer period as may be determined under section 12 of the Audit Ordinance (Cap. 122)) of the date on which the Director's report is laid on the Table of the Council.

(10) The committee shall make their report upon the report of the Director of Audit mentioned in subrule (2) within 3 months (or such longer period as may be determined by the Council) of the date on which the Director's report is laid on the Table of the Council.

(11) Subject to these Rules of Procedure, the practice and procedure of the committee shall be determined by the committee.

**Paper presented to the Provisional Legislative Council  
by the Chairman of the Public Accounts Committee  
at the meeting on 11 February 1998 on  
Scope of Government Audit in the  
Hong Kong Special Administrative Region -  
'Value for Money Audits'**

**SCOPE OF WORK**

1. The Director of Audit may carry out examinations into the economy, efficiency and effectiveness with which any bureau, department, agency, other public body, public office, or audited organisation has discharged its functions.
  
2. The term "audited organisation" shall include -
  - (i) any person, body corporate or other body whose accounts the Director of Audit is empowered under any Ordinance to audit;
  - (ii) any organisation which receives more than half its income from public moneys (this should not preclude the Director from carrying out similar examinations in any organisation which receives less than half its income from public moneys by virtue of an agreement made as a condition of subvention); and
  - (iii) any organisation the accounts and records of which the Director is authorised in writing by the Chief Executive to audit in the public interest under section 15 of the Audit Ordinance (Cap. 122).
  
3. This definition of scope of work shall not be construed as entitling the Director of Audit to question the merits of the policy objectives of any bureau, department, agency, other public body, public office, or audited organisation in respect of which an examination is being carried out or, subject to the following Guidelines, the methods by which such policy objectives have been sought, but he may question the economy, efficiency and effectiveness of the means used to achieve them.

## GUIDELINES

4. The Director of Audit should have great freedom in presenting his reports to the Legislative Council. He may draw attention to any circumstance which comes to his knowledge in the course of audit, and point out its financial implications. Subject to these Guidelines, he will not comment on policy decisions of the Executive Council and the Legislative Council, save from the point of view of their effect on the public purse.

5. In the event that the Director of Audit, during the course of carrying out an examination into the implementation of policy objectives, reasonably believes that at the time policy objectives were set and decisions made there may have been a lack of sufficient, relevant and reliable financial and other data available upon which to set such policy objectives or to make such decisions, and that critical underlying assumptions may not have been made explicit, he may carry out an investigation as to whether that belief is well founded. If it appears to be so, he should bring the matter to the attention of the Legislative Council with a view to further inquiry by the Public Accounts Committee. As such an investigation may involve consideration of the methods by which policy objectives have been sought, the Director should, in his report to the Legislative Council on the matter in question, not make any judgement on the issue, but rather present facts upon which the Public Accounts Committee may make inquiry.

6. The Director of Audit may also -

- (i) consider as to whether policy objectives have been determined, and policy decisions taken, with appropriate authority;
- (ii) consider whether there are satisfactory arrangements for considering alternative options in the implementation of policy, including the identification, selection and evaluation of such options;
- (iii) consider as to whether established policy aims and objectives have been clearly set out; whether subsequent decisions on the implementation of policy are consistent with the approved aims and objectives, and have been taken with proper authority at the appropriate level; and whether the resultant instructions to staff accord with the approved policy aims and decisions and are clearly understood by those concerned;

- (iv) consider as to whether there is conflict or potential conflict between different policy aims or objectives, or between the means chosen to implement them;
- (v) consider how far, and how effectively, policy aims and objectives have been translated into operational targets and measures of performance and whether the costs of alternative levels of service and other relevant factors have been considered, and are reviewed as costs change; and
- (vi) be entitled to exercise the powers given to him under section 9 of the Audit Ordinance (Cap. 122).

## **PROCEDURES**

7. The Director of Audit shall report his findings on value for money audits in the Legislative Council twice each year. The first report shall be submitted to the President of the Legislative Council within seven months of the end of the financial year, or such longer period as the Chief Executive may determine. Within one month, or such longer period as the President may determine, copies shall be laid before the Legislative Council. The second report shall be submitted to the President of the Legislative Council by the 7th of April each year, or such date as the Chief Executive may determine. By the 30th April, or such date as the President may determine, copies shall be laid before the Legislative Council.

8. The Director's report shall be referred to the Public Accounts Committee for consideration when it is laid on the table of the Legislative Council. The Public Accounts Committee shall follow the rules governing the procedures of the Legislative Council in considering the Director's reports.

9. A Government minute commenting on the action Government proposes to take in respect of the Public Accounts Committee's report shall be laid on the table of the Legislative Council within three months of the laying of the report of the Committee to which it relates.

10. In this paper, reference to the Legislative Council shall, during the existence of the Provisional Legislative Council, be construed as the Provisional Legislative Council.