THE EFFECTIVENESS OF VALUE FOR MONEY AUDIT
IN THE EVALUATION OF GOVERNMENT PROGRAMMES

by

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DISSERTATION

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ABSTRACT OF DISSERTATION

Value for money audit conducted by the Director of Audit is a formal tool of evaluation on government programmes. It helps improve public accountability by providing information on the performance of the government which the public may not have access to.

2. The Audit Department is an unit within the administration. The process of value for money audit in Hong Kong is similar to that of other countries, with the Director of Audit conducting audit investigations into government activities and the Public Accounts Committee following up on the audit reports by holding public hearings.

3. Statistics on the coverage of the audits, their results and the behaviour of the Public Accounts Committee on the handling of the audits have been drawn up. They reveal that the Director of Audit has covered a wide range of government activities in his value for money audit work. However, there is a tendency that the audits were largely on internal government functions. Also, audit subjects are usually on cases of waste and extravagance and reviews of standard managerial functions. Broad-based studies, which should focus on the policy level of government programmes, are very few. This is Hypothesis 1 of the research based on the fact that the Audit Department is not independent of the Administration and it has been proven true.

4. The Public Accounts Committee has used its public hearings very effectively, both in its scrutiny of the audit reports and also in satisfying the expectation of the public in its monitoring role on the performance of the Government. It provides the legitimacy to the audits and adds a political dimension to the process. This is Hypothesis 2 of the research. The behaviour of the Public Accounts Committee observed in the research has proven that it can fulfill its role in this respect.

5. There is a marked change of behaviour of the Public Accounts Committee since the 1991 direct election when directly elected Legislative Councillors were introduced to the Committee. It has become more diligent in including more audit subjects for investigation and has been more willing to call up additional witnesses in public hearings, to draw up additional recommendations and to issue supplementary reports on
selected cases. Hypothesis 3 of the research suggested that the Public Accounts Committee should be more effective with directly elected Legislative Councillors and this has been proven true.

6. Hypothesis 4 of the research states that the process of value for money audit is an effective tool for the evaluation of government programmes within the ambit of the cases chosen for audit. This has been proven to be positive with the 105 cases analysed. This result suggests that the process should be able to be put into more effective use if the Audit Department could be given the freedom and resources to conduct more broad-based studies. Also, the resource constraint of the Public Accounts Committee could be resolved by co-opting into the membership of the Committee academics and professionals who are not Legislative Councillors.
Chapter 1

Introduction

1.1 Value for money audit is a major activity of the Audit Department in Hong Kong. Every year, the Director of Audit publishes twice his reports on the results of the value for money audits the Audit Department conducted on various government activities. The reports are scrutinized by the Public Accounts Committee which holds public hearings to question government officials on the subjects reported. The reports and the public hearings attract a great deal of public attention. They are seen as major efforts in exposing government wrong doings. This research investigates the role of value for money audit in the public policy process and its effectiveness in the evaluation of government programmes.

1.2 The research intends to find out:

(1) the extent that the value for money audits have contributed to the evaluation of government programmes,

(2) the extent to which the Public Accounts Committee has made use of the value for money reports to scrutinize public policy,

(3) the different ways the Public Accounts Committee handled the value for money audit reports before and after the 1991 direct election, and

(4) whether the conducting of value for money audits is an effective tool in programme evaluation.

Significance of the Research

1.3 The Director of Audit's reports and their scrutiny by the Public Accounts Committee in public twice a year always attract a lot of public attention and receive wide media coverage. The public have high expectation on the process and the conduct of value of money has been seen as a way to monitor the performance of the Government. Hong Kong is ruled by an executive-led government and much of the policy making is in the hand of the bureaucrats. The Audit Department, being one of the government departments, may not be effective in this monitoring role.
However, the way that the results of the value for money audits are followed up by the Public Accounts Committee may provide an avenue for a closer examination of the working of the Government by legislators, and may provide some external checks for an accountable government.

1.4 The research may be able to provide some insight on whether value for money audit is an useful tool for programme evaluation. It aims to identify evidence on the effect of these audits and whether they are successful in ensuring that the government programmes are economically, efficiently and effectively run, thus fulfilling the expectation of the members of the public on the watchdog role of the Director of Audit.

1.5 Chapter 2 of the dissertation provides a theoretical background on the significance of evaluation in the public policy process. It also studies the issue of public accountability. These concepts establish the ground work for the conducting of value for money audits as a tool of evaluation in the public policy process. Chapter 3 is a comparative study of the development of value for money audit in the public sector in various countries and how it evolves into its present form. Chapter 4 targets on the role of the Public Accounts Committee and how does it provide legitimacy to the value for money audit reports. Chapter 5 onwards is the result of the research into the documents available. It explains the method used, provides an analysis of the data collected and presents the findings and conclusions of the research.

**Scope and Limitations**

1.6 The results of value for money audits published in the Director of Audit's reports only contain the facts of the cases investigated and the audit recommendations. They do not reveal the process of investigation and the various factors considered. The Public Accounts Committee conducts meetings in public at which heads of government departments are questioned. However, the Committee also holds close door meetings before it presents the final views in its own reports. The reports of the Committee do not provide information on the political consideration, negotiation and compromises which have taken place before the Committee reaches the final decisions. The research can analyse the types of audits undertaken, the subject areas audited and the issues brought up for criticism vis-a-vis the behaviour and reaction of the Public Accounts Committee towards these reports. The deliberation of the Committee and the alternatives considered are however not made public entirely.
Chapter 2

The Place of Evaluation in the Public Policy Process
and Public Accountability

2.1 The basic literal meaning of value for money is the assessment of value, monetary or otherwise, against money or resources spent. It is basically an evaluation of the worth of an activity vis-a-vis the allocation or input of resources. Evaluation has been regarded as an integrated step in the public policy process. Christopher Ham and Michael Hill (1984, p.7-10), in defining the scope of policy analysis, drew on a typology proposed by Hogwood and Gunn (1981), which includes seven variables of policy analysis. They are the studies of policy content, studies of policy process, studies of policy outputs, evaluation studies, information for policy making, process advocacy and policy advocacy. Evaluation studies in this typology marks a borderline between analysis of policy which embraces the first four variables up to evaluation studies, and analysis for policy which are the last four variables. Evaluation studies feature in both types of analysis. Such studies are also sometimes referred to as impact studies as they are concerned to analyse the impact policies have on the population.

2.2 William Dunn (1981, p.44-45) in developing technical and conceptual skills for analyzing public policy problems, established a framework for policy analysis which included evaluation as an important step in the process of analysis. Dunn defined five types of information which are relevant to policy analysis: policy problems, policy alternatives, policy actions, policy outcomes and policy performance. These five types of information are related and interdependent, as shown in the following figure.
2.3 According to Dunn's definitions, policy problem is an unrecognised value, need, or opportunity which may be attained through policy action. Policy alternative is a potentially available course of action that may contribute to the attainment of values and therefore the resolution of a policy problem. A policy action is a move or a series of move guided by a policy alternative that is designed to achieve valued outcomes. Policy outcome is an observed consequence of policy actions while policy performance is the degree to which a given policy outcome contributes to the attainment of values. As can be seen from the figure, one type of policy-relevant information leads to another. In particular, information on policy performance is constantly being fed back to all other types of information.

2.4 In Dunn's framework model of policy analysis, he identified six analytical procedures to process and analyse the five types of policy-relevant information (Dunn, 1981, p.39-40). These procedures are problem structuring, monitoring, forecasting, evaluation, recommendation and practical inference. Problem structuring helps the analyst to classify a problem and to speculate about its potential solutions. Monitoring produces information about the past causes and consequences of policies while forecasting estimates the future consequences of policies. Evaluation involves the production of information about the value or worth of past and future policies. Recommendation produces information about the likelihood that future courses of action will result in valued consequences. Lastly, practical inference helps reach conclusions about the extent to which policy problems have been resolved.

2.5 By integrating the five types of policy-relevant information with the six analytical procedure, Dunn built the framework model of policy analysis as shown in the following figure (Dunn, 1981, p.48).
2.6 In this model, information of policy outcomes are evaluated. Through evaluation, this type of information is transformed into policy performance information, which is further transformed by practical inference to addition information on policy problems. Information on policy outcomes can also be transformed through evaluation into information for policy alternatives. Dunn termed such dynamic process of change to be policy-informational transformations. Evaluation in this model plays an important role in linking policy outcomes and policy performance to policy problems and policy alternatives (Dunn, 1981, p.341). Firstly, it provides reliable and valid information about policy performance which is represented by the extent to which needs, values and opportunities have been realized through policy actions. It reveals the extent to which particular goals and objectives have been attained and helps make practical inference about the degree to which policy problems have been resolved. Secondly, evaluation contributes to the clarification
and critique of values that underlie the selection of goals and objectives. Thirdly, evaluation may contribute to the application of other policy-analytic procedures, including problem structuring and recommendation. For example, information on inadequate policy performance may contribute to the restructuring of policy problems by showing that goals and objectives can be redefined. Evaluation may also contribute to the definition of new or revised policy alternatives by showing that a previously favoured policy alternative should be replaced by another one.

2.7 Dunn also identified three approaches to evaluation: pseudo-evaluation, formal evaluation and decision-theoretic evaluation (Dunn, 1981, p.344-348). Pseudo-evaluation is an approach which uses scientific methods to produce reliable and valid information about policy outcomes, without attempting to question the worth of these outcomes to persons, groups, or society as a whole. The major assumption of pseudo-evaluation is that measures of worth or value are self-evident or uncontroversial. Formal evaluation uses scientific methods to produce reliable and valid information about policy outcomes but evaluates such outcomes on the basis of policy-programme objectives that have been formally announced by policy makers and programme administrators. It assumes that formally announced goals and objectives are appropriate measures of the worth or value of policies and programmes. Decision-theoretic evaluation uses scientific methods to produce information about policy outcomes that are explicitly valued by multiple stakeholders. The key difference of this approach with pseudo-evaluation and formal evaluation is that decision-theoretic evaluation attempts to surface and make explicit the latent as well as formal goals and objectives of stakeholders. Formally announced goals and objectives of policy makers and administrators are but one source of values, since all parties who have a stake in the formulation and implementation of a policy are involved in generating the goals and objectives against which performance is measured.

2.8 Value for money audits conducted by the Director of Audit operate within well defined boundaries. It focuses on the implementation of government policies vis-a-vis the stated policy objectives. The Director of Audit is not entitled to question the merits of these policy objectives. Such being the case, the value for money audits of government activities can only be regarded as to fall within the meaning of formal evaluation. Data collected and analysed during the audit produce reliable and valid information about policy outcomes. This information is evaluated against the policy-programme objectives formally announced by the Government. This approach is effective in exposing the economy, efficiency and effectiveness of the way in which the Government has implemented her
programmes. It is not intended to evaluate how well the Government is doing her job in policy setting and the effectiveness in fulfilling her responsibility for good governance. However, value for money audit, even in its limited evaluation role, can still provide useful information, by studying policy outcomes, to the assessment of policy performance and to provide an insight on policy problems and on the choice of policy alternatives.

The Issue of Public Accountability

2.9 There is another perspective on the evaluation of the performance of government programmes which is the accountability of the government to the society. The basic meaning of accountability is easy to understand. In the Concise Oxford Dictionary, "accountable" is defined to mean "responsible; required to account for one's conduct." Public accountability is extended to cover the accountability of the authorities to the people. This notion of public accountability has been accepted by auditors of government accounts. According to the Asian Organisation of Supreme Audit Institutions (1985), public accountability is the obligations of persons of authorities entrusted with public resources to report on the management of such resources and be answerable for the fiscal, managerial and programme responsibilities that are conferred. Public accountability is necessary because the people have entrusted their government to perform certain tasks which are best performed by the government. Usually, this process of entrustment is enforced by a legislature elected by the people. The legislature, acting in the public interest, confers powers to the government, and entrusts the government to execute programmes and delivers products. To enable the government to function, the legislature provides the government with the necessary resources. Johnsman Au (1993, p.25) states that public accountability is obligatory because the legislature and the people need to know, and have the right to know whether the government is doing what it has been entrusted to do.

2.10 Based on the declaration of the Asian Organisation of Supreme Audit Institutions, for a government to be publicly accountable for its performance, it is obliged to report on the management, and is answerable for the performance of her programmes. The basic requirement to fulfill such accountability is the provision of information both at the time the government requests resources from the legislature and at regular intervals when the government reports on her performance to the legislature. This is a process of self evaluation where the government assess her own performance, probably in the light of promoting the image
of the government or with the aim of securing resources to be allocated. For full public accountability to be achieved, there should be external scrutiny of the performance of government programmes. Various institutions exist to accomplish this goal. There are politicians commenting on government activities on the political perspective, academics doing social researches on the effect of government programmes on the society and the media keeping a close watch on the impact of government actions on the daily life of the community.

2.11 Value for money audits are something in between. Such audits are conducted by the Audit Department as a government department. It has the ability to research within the government structure and has access to classified information kept by various government departments. Such ability enables the Audit Department to obtain information which cannot be obtained easily by other institutions. Although it is one of the government departments, the Director of Audit is empowered by the Audit Ordinance to report on any irregularities in the government accounts. The Director of Audit presents his reports directly to the President of the Legislative Council and these reports are scrutinized in public by the Public Accounts Committee. It adds a dimension to public accountability by providing information which the government herself may not voluntarily present and which the public may not readily have access to.
Chapter 3

The Development of Value For Money Audit as a Tool for Programme Evaluation

3.1 Government auditing started off as financial auditing, its main purpose being to ensure the correctness of the transactions of the government accounts. It was considered for a long time as an unimportant activity mainly employed to cross-check the accounts maintained by government accountants. However, with the development of the economy and democracy in many countries, tedious checking of government spending has gradually become impractical. In the past few decades, public sector auditing has been evolving into taking a more active and important role in the monitoring of government activities, financially and also on the performance of government programmes in general.

3.2 There are two factors which trigger this change. First, with the growth in the economy and the expansion of government activities worldwide, the number of accounting transactions in many countries has increased tremendously, to the extent that it is impossible now for public sector auditors to check a reasonable proportion of government vouchers and receipts as in the old days. On the other hand, the advance of modern technology in the development of more sophisticated accounting systems with the use of computers has improved the accuracy of accounting transactions and has decreased the risk of accounting errors. Public sector auditors, in performing their duty to ensure the correctness and propriety of government accounts, have to concentrate on the mechanism of control and the legality of system procedures. This enables them to shift their emphasis on figures and accounting rules to overviews of systems. Secondly, with the development of democracy in many countries, the public are more conscious of the performance of their governments. To fulfill the need of the people, elected legislatures in various countries turn to public sector auditors as an institution suitable for the provision of information on the performance of government programmes. Audit offices are given more authority and independent status to enable them to conduct researches and programme evaluation.

3.3 Value for money is an issue which gained much popularity in the last few decades. Butt and Palmer (1985, p.5-6) attributed the emphasis of value for money in the society to the change in the economic and social
climate. In the United Kingdom, demand for services and programmes provided by the government is increasing. But at the same time, resources required to meet these needs are limited. While the hostile economic climate brought a lot of pressure to public sector organisations, the change in political conditions over the past decades also brought a transition from an expansionary period to an age of accountability, with pressure groups demanding that public officials be more openly responsible for their decisions and growing scepticism about the effectiveness of certain social programmes. Against this background, both the United States of America and the United Kingdom have seen their public sector auditors being given the job of evaluation of government programmes. In the United States of America, it is termed programme evaluation and in the United Kingdom value for money audit. In some other countries, it is sometimes called performance audit or efficiency audit. In modern term, the value for money audit framework is defined as a methodology which assists in the decision-making process of setting output goals and designating resources to meet those goals (Shelton and McNamara, 1992, Chapter 2). Such kind of auditing goes beyond traditional reviews of internal controls and financial statements by reviewing economy, efficiency and effectiveness in the use of resources and in establishing management accountability.

Government Accounting Office of the United States of America

3.4 In the United States of America, such duty is carried out by the Government Accounting Office (GAO) which is an organisation responsible directly to the Congress (Trask, 1991, p.3). GAO was established in 1921 under the Budget and Accounting Act with the principle that it should be independent of the executive departments. The development of the GAO since then represents the evolution of public sector auditing from the early days of voucher checking to the present activity of programme evaluation.

3.5 The development of GAO went through three distinct eras (Havens, 1990, p.2-7). The first era is from its establishment in 1921 until the end of World War II. During this period, the work of GAO mainly consisted of detailed auditing of individual vouchers, with emphasis on the conformance to an elaborate set of rules governing the use of public funds. This control-focused, quasi-judicial interpretation of the audit function was typical in the 19th and early 20th centuries, with the audit agency in many countries being limited to reviewing the legality of accounting transactions. The second era started after the World War II in 1947. Faced
with the impossible task of clearing a backlog of 35 million unaudited vouchers accumulated during the expansion of government activities in the wartime, GAO recognized the futility of trying to return to the old ways. A new approach to financial management and auditing was designed. GAO would then concentrate on prescribing accounting principles and checking the adequacy of financial management procedures and controls. The third era saw a drastic change in the emphasis of GAO upon the appointment of Elmer Staats as its Comptroller General in 1966. An economist and a career civil servant with 30 years of experience in the Bureau of Budget, Staats brought with him the analytical approaches that had been used in the executive branch as part of the planning, programming, budgeting system (PPBS) which is an highly structured, analytically based framework for decision-making. Staats considered that the form of analysis employed in PPBS would be useful to the Congress in overseeing federal programmes and providing them would be a logical extension of GAO's auditing function. Staats' initiatives brought programme evaluation and policy analysis into the management audit functions and GAO has turned itself into a interdisciplinary organisation capable of carrying out the full range of audits, management reviews, evaluation, and other studies demanded by Congress.

The United Kingdom National Audit Office

3.6 In the United Kingdom, the development of value for money auditing is not as early as in the United States of America. Although the origin of the its National Audit Office (NAO) can be traced back to the 14th century, with the responsibilities for financial audit derive from the Exchequer and Audit Department Acts of 1866 and 1921, these legislations did not contain any explicit provision for the conducting of value for money audits (Cubbon, 1992, para.6-8). Value for money audit was given statutory recognition by the National Audit Act 1983 which came into force on 1January 1984. The Act made the Comptroller and Auditor-General an officer of the House of Commons and transformed the Exchequer and Audit Department into the National Audit Office with full independent status. The Comptroller and Auditor-General reports to the House of Commons, with his reports then being examined by its Public Accounts Committee.

3.7 Until the early 1980s, value for money audits were also conducted, albeit without the statutory power. However, these audits were largely restricted to criticism of weaknesses identified and did not
normally give rounded pictures of significant areas of expenditure. With
the introduction of the 1983 Act, the NAO focused a significant part of its
value for money audit efforts on broader and more rounded studies with a
view to providing assurance about the overall management of the area
being studied and the strengths of the relevant financial and management
systems whilst continuing to draw attention to any identified weaknesses,
and the lessons to be learned. The aim was to provide the House of
Commons with reports of a wider cross-section of departmental activities,
where value for money was judged to be most at risk (Cubbon, 1992,
para.11).

3.8 The wide discretion given to the Comptroller and Auditor-
General to the conducting of value for money audits was however limited
by the statutory requirement that he was not entitled to question the merits
of policy objectives, which are for Ministers and Parliament to decide
(Cubbon, 1992, para.9). The 1983 Act makes it clear that while the auditor
should review the arrangements for achieving effectiveness, he must on no
account question the policies which have been decided by the
democratically elected members. This approach is followed in audit
legislation in other countries, notably Sweden, Australia and Canada,
where auditors may review systems for achieving effectiveness but may
not criticise policy decisions. The situation is different in the United States
of America where the GAO has powers to review and evaluate government
programmes and to suggest alternative policies where appropriate (Butt
and Palmer, 1985, p.5).

Australian National Audit Office

3.9 The Australian Parliament established the Australian National
Audit Office (ANAO) Charter in the year of Federation, 1901. The Audit
Act, which was the fourth Act to be passed by the first Australian Federal
Parliament, came into operation on 1 January 1902. The Act provides the
legal foundation for the appointment of an Auditor-General (Taylor, 1993,
p.3). It also establishes the ANAO as the external auditor of the Executive
and its statutory bodies, and confers statutory responsibilities for it to
report to the Parliament on the audits on them. As Taylor put it (1993,
p.15), a cornerstone of the democratic society is an informed Parliament,
and, as the Parliament's auditor, the ANAO is a prime source of
independent and apolitical assurance and advice to the Parliament on the
operation and performance of public organisations. The Auditor-General is
in a unique and vital position in the accountability chain, having the
necessary independence and authority to report to the Parliament on performance audit outcomes, which address the efficiency and effectiveness of public administration, and audit opinions and related matters on the financial statements of departments, statutory authorities and government-owned or controlled companies. The ANAO provides parliamentary committees with formal submissions, briefings and other relevant information and material, as well as appearing as witness at committee hearings.

3.10 However, the power of ANAO in conducting its audits is not without barrier. Taylor (1991, p.9) mentioned in the ANAO Management Plan 1991-1994 that there is a restriction on efficiency audits in government business enterprises. The Auditor-General can only carry out these audits at the request of the responsible Minister.

3.11 The activities of the ANAO can best be summed up by its mission statement (Taylor, 1993, p.6): The ANAO will assist the Auditor-General to carry out his duties and responsibilities under the Audit Act and other relevant legislation. This will involve undertaking programs of performance and financial statement audits in Commonwealth public sector organisations and providing independent reports and advice thereof to the Parliament and the Australian community, the Executive Government and the boards and management of those organisations. The ANAO seeks to improve the accountability, economy, efficiency and effectiveness of the Commonwealth public sector and to provide assurance to users of their reports.

The Audit Department of Hong Kong

3.12 Audit activities started in the very early days of Hong Kong, with the first Auditor-General appointed in 1844 (Government Information Service, 1994, p.18). The mandate of audit at present is derived from the Audit Ordinance enacted in 1971, which provides for the appointment, security of tenure, duties and powers of the Director of Audit, and the submission of his reports to the President of the Legislative Council. Although the Audit Ordinance confers wide powers to the Director of Audit regarding his investigations, enables him to function independently and to report freely as he sees fit, the Audit Department as a whole still remains to be one of the government departments within the colonial administration. Unlike its counterparts in other countries, the Audit Department of Hong Kong does not have an independent status. The
allocation of its resources is still subject to the normal government budgeting mechanism. Appointment of personnel is also subject to Civil Service Regulations.

3.13 The Audit Ordinance provides a mandate for the Director of Audit to carry out financial audit. In submitting his reports on the accounts of the Hong Kong Government, the Director can report on weaknesses identified in the financial management of the Government. The development of public sector auditing in Hong Kong follows the footstep of the United Kingdom Government. The enactment of the National Audit Act 1983 has a significant impact in Hong Kong. However, a similar setting in the form of an independent audit office was not followed up in Hong Kong, probably because of the local constitutional arrangement and the colonial status of the territory. The conducting of value for money audits is given public recognition under a set of guidelines tabled in the Legislative Council by the Chairman of the Public Accounts Committee on 19 November 1986. These guidelines were agreed between the Public Accounts Committee and the Director of Audit and have been accepted by the Administration. These guidelines enables the Director of Audit to conduct value for money audits on government activities and to report the results of the audits to the President of the Legislative Council. However, he is not entitled to question the merits of the policy objectives in respect of which an examination is being carried out (Director of Audit's Report No.23, 1994a, p.302).

3.14 The Director now submits two reports a years to the President of the Legislative Council. The first one submitted in October each year is a statutory requirement under the Audit Ordinance on the examination and audit of the financial statements of the Government for the previous financial year. The report also includes the findings of the value for money audits that have been completed by that date. The second report, submitted in April each year, consists entirely of the results of the value for money audits. The reports are scrutinized by the Public Accounts Committee of the Legislative Council which holds public hearings where government officials are called as witnesses to give explanations to the criticism brought up in the Director's reports.

3.15 There is an interesting development in the independence of the Director of Audit as a result of constitutional change in the legislature. Since 1994, the Governor ceased to chair the Legislative Council and the Council now elects among its members a President of the Legislative Council. Instead of submitting his reports to the Governor as the President of the Legislative Council who is at the same time the head of the
Administration, the Director now submits his report directly to an unofficial who has no part to play in the Administration. Although by convention the Administration has never interfered with the decision of the Director of Audit, the change may be seen as a right step in improving the credibility of public sector auditing in Hong Kong.

3.16 The objective of the Audit Department for its programme of value for money audit is to provide the Legislative Council with independent information, advice and assurance about the economy, efficiency and effectiveness with which any branch/department of the government, agency, other public body, public office, or audited organisation has discharged its functions (Estimate 1994-95, Vol.1, p.44). This is in line with the aim of such audits practised in other countries where the 3 E's: economy, efficiency and effectiveness are the centre of attention.
Chapter 4
The Role of the Public Accounts Committee

4.1 The Public Accounts Committee (PAC) of the Legislative Council was established by Resolution of the Council on 10 May 1978. Such arrangement was introduced much later than other countries. This reflects the long standing colonial style of administration in Hong Kong as a British colony. Development of a more representative and open government in Hong Kong became active only in the past 10 years or so. Before the establishment of the Committee, the Director of Audit submitted his report in October each year to the Governor. The Government Secretariat then prepared a government response to the report for the Governor to submit to the Secretary of State of the United Kingdom. The Director of Audit's report was then tabled in the Legislative Council in accordance with the Audit Ordinance together with the Government's response (Au, 1993, p.77). Such arrangement changed in 1978 with the introduction of the Public Accounts Committee vested with the task of scrutinizing and following up on the Director of Audit's reports, and with the amendment of the Audit Ordinance to enable the Director of Audit to submit his reports to the President of the Legislative Council.

4.2 Standing Order 60A of the Legislative Council sets up the Public Accounts Committee (PAC Report No.21, 1994, p.92) with a chairman and six members to be nominated by the President, all of whom are members of the Council other than ex-officio members. The appointment of the Committee is seen to have been carefully considered. Upon the introduction of directly elected seats to the Legislative Council in 1991, the membership of the Committee has been carefully balanced between members belonging to different parties. The Committee appointed in 1991 includes Mr Ng Ming-yum from the United Democrat and Miss Lau Wai-hing, an independent and outspoken directly elected member. Upon the death of Mr Ng Ming-Yum in 1992, his seat was filled by Mr Martin Lee and subsequently by Mr Chan Wai-yip in 1993, both of them members of the United Democrat. Such appointments also reflect the corresponding change in the composition of the Legislative Council and the constitutional structure of Hong Kong.
4.3 The Audit Ordinance does not make specific provision for value for money audits. Such audits were introduced in an obscure form in a paper presented to the Legislative Council by the Chairman of the Public Accounts Committee on 19 November 1986 on "Scope of Government Audit in Hong Kong - Value for Money Studies" (PAC Report No.21, 1994, p.94). The paper was seen as the basis for the Director to conduct such audits. Although this arrangement may fall short of conferring a statutory power to the Director in the course of discharging this duty, the Director has never indicated that there is any difficulty in the conducting of value for money audits. By convention, government departments have been co-operative in the audit investigations.

4.4 A set of practice and procedure have been set up by the Committee in accordance with the Legislative Council Standing Order 60A. It enables the Committee to call upon public officers to appear in public hearings. It also makes it the personal responsibility of the officers concerned for the information or the production of records and documents required by the Committee. The Committee may take evidence from any parties outside the civil service and the subvented sector. In the public hearings, the personal appearance of the public officers are required (PAC Report No.21, 1994, p.95). The Public Account Committee has made use of such provisions to their full extent and public officers are questioned in public in details. The Committee takes into account the evidence provided in the public hearings before reaching conclusions and making recommendations and reporting them to the Legislative Council in its own reports.

4.5 The Government's response to the reports of the Public Accounts Committee is in the form of a Government Minute to the Legislative Council, which comments as appropriate on the conclusions and recommendations of the Public Accounts Committee, indicates what action the Government proposes to take or explains why it is not intended to take action. The Committee considers the minute and where necessary, comments on the progress of government action in its subsequent reports.

4.6 The Public Accounts Committee provides the legitimacy to value for money audits through its scrutiny of the results of the audits and its reports on the findings and recommendations to the Legislative Council. Its views have a strong effect on the acceptance of the audit reports and the subsequent remedial actions to be followed up. It can also question government officials on the merits of public policy based on the facts
identified in the audits. In the following chapters, the research will examine the effectiveness of the value for money audits and also the reaction of the Public Accounts Committee on the results of the audits with a view to finding out the extent it has made use of the reports to scrutinize public policy.
Chapter 5

Methodology of the Research

5.1 The research is based mainly on the analysis of documents related to the value for money audit process. They include the reports of the Director of Audit, the reports of the Public Accounts Committee and other literature on the status and operation of the Audit Department, such as the Audit Ordinance and the Basic Law.

5.2 The results of the value for money audits conducted by the Audit Department are presented by the Director of Audit in his reports to the Legislative Council twice a year. These reports are then scrutinized by the Public Accounts Committee of the Legislative Council. The Committee, having considered the content of the reports of the Director of Audit and received further evidence and explanation from public officers in the public hearings of the Committee, presents its recommendations to the Legislative Council in its own corresponding reports. The Committee also considers the Government Minute which contains the response of the Government to its recommendations and may comment in its subsequent reports if necessary on the progress of government actions. The reports of the Director of Audit and of the Public Accounts Committee are public documents and they form the main source of data for the research.

5.3 Value for money audits reported in the Director of Audit's bi-annual reports since 1988 have been analysed. These include the Director of Audit's Reports Number 12 to Number 22. Correspondingly, Public Accounts Committee's Reports Number 12 to Number 22, together with three supplementary reports numbers 17A, 20A and 21A are also included in the research. Special attention was paid on the behaviour of the Public Accounts Committee towards the audit reports before and after the 1991 direct election when there was a substantial change in its membership to include directly elected Legislative Councillors. A total of 105 cases have been analysed. 46 of them are from Director of Audit's Reports Number 12 to Number 16 which were published during the period from October 1988 to October 1990. There was no report published in March 1990. These 46 cases were considered by the Public Accounts Committee prior to the Legislative Council election in 1991. The other 59 cases are from Director of Audit's Reports Number 17 to Number 22 published during the period
from October 1991 to March 1994, and were considered by the new Public Accounts Committee with directly elected Legislative Councillors. In addition to these reports, the Audit Ordinance and the Basic Law have also been studied with regard to the provisions in these legal documents on the status of the Audit Department and the statutory requirements on its operation.

Hypotheses of the Research

5.4 In order to meet the research objectives, several hypotheses are drawn up. These hypotheses are assumptions based on initial observation on the process of evaluation of government programmes by the conducting of value for money audits and the subsequent examination by the Public Accounts Committee. The research attempts to prove whether the hypotheses are true based on the facts extracted from and statistics compiled on the documents analysed.

Hypothesis 1 - The Audit Department, being one of the government departments within the administration, may not be able to expose cases which are politically sensitive.

5.5 This hypothesis is based on the fact that the Audit Department of Hong Kong operates in a different environment from other countries. From the comparative study of the audit institutions of several advanced countries, it is found that the Hong Kong Audit Department is set up under a different constitutional arrangement. The important difference being that the Audit Department of Hong Kong is not independent of the Administration. It is one of the departments within the government structure. It is expected that the Audit Department will have much difficulties and constraints in identifying subjects for audit, in particular those which are political sensitive and may bring embarrassment to the Government. The members of the public have high expectation on the Audit Department in exposing government wrong doing. For example, there were public outcry for the Director of Audit to conduct investigation on the planning of the re-construction of the Hong Kong Stadium when the noise problem in conducting pop concerts surfaced, and also on the government procedures on the clearance of roof top squatter when the issue became a social problem. However, the Audit Department may not be able to respond to such prominent social issues. Owing to its position in the Government, it may not be in a good position to evaluate the performance of its masters.
5.6 The research will take a deeper look into the origin of value for money audit in Hong Kong with a view to identifying the circumstances leading to the establishment of the present system which is similar to those in other countries but with the most important element missing. There is a likelihood that Hong Kong, as a colony of the United Kingdom, may be considered inappropriate to have a powerful watchdog on the performance of the local government which takes direction from London.

5.7 In order to assess what actually did the Audit Department choose to criticize, a question will be asked on the type of value for money audits undertaken. Value for money audits can be classified into three broad categories by nature and scope of coverage (Jenney, 1993, p.5). The first one are those selective investigations of possible serious waste, extravagance, inefficiency, ineffectiveness or weakness in control. These are largely confined to examining whether criticism is justified, examining causes and considering improvements. The second one are broad-based investigations of important activities, projects or programmes. These are designed to lead to balanced reports drawing attention to material weaknesses in control or achievement as well as giving assurance in areas where arrangements are found to be satisfactory. The third type are reviews of standard managerial operations which tend to follow common patterns and procedures and which could have a material effect on value for money in areas where significant resources are involved, such as stores procurement, maintenance of equipment, operation of transport fleets, etc. By the scope of coverage, the first type is very narrow and may pinpoint on a particular incident. Comparatively, cases of this nature are easier to identify and investigations are relatively straight-forward. However, these cases may not have a significant impact on public policy. It may however provide lessons to be learnt in the furthering of economy and efficiency of the government departments. The second type provides a wider perspective on government programmes. They are more akin to social auditing which is more useful in the evaluation of government programmes. Nevertheless, this type of audit demands large amount of resources and expertise on the subjects concerned. The third type is more assurance-oriented in that the audits target on major systems in the government which usually involve the use of significant resources. Although these subjects may be less complex in nature, their orderly and effective operation can ensure value for money for the significant amount of resources spent. However, many of these systems are internal activities of the government and their operation may not have significant impact on public policies.
In addition to the types of audits undertaken, statistics on the specific government policy areas under audit will be compiled. A study on the proportion of the three types of audit and on the coverage of the work of the Audit Department on various government programmes will give an understanding on the focus of the Audit Department when it chose its targets.

On the management side, it is useful to find out whether the Audit Department is capable of handling the tasks that are expected to be performed. The evolution of public sector auditing from financial audits to value for audit audits has created great demand on the analytical ability and professional knowledge of the auditors. The capability or otherwise of the Audit Department in the satisfactory conducting of value for money audit will affect the effectiveness of this formal tool of evaluation.

There is also a political perspective on the status of the Audit Department. The relationship of the Director of Audit with the Legislative Council and its Public Accounts Committee vis-a-vis its relationship with the Administration needs to be delicately balanced. Furthermore, an additional political factor associated with the 1997 handover of sovereignty of Hong Kong and the provision of the Basic Law of the future Special Administrative Region on public auditing also has a profound effect on the work of the Audit Department. In order to prove whether hypothesis 1 is true, all these factors will be researched and assessed in order to evaluate the extent the Audit Department can fulfill its role.

**Hypothesis 2 - The Public Accounts Committee can provide the legitimacy to the audits and can add a political dimension to the process.**

The Audit Department has a lot of constraints in reporting the results of the value for money audits. It cannot comment on the merits of public policies. Its reports only concentrate on the economy, efficiency and effectiveness of the means adopted to accomplish policy objectives. According to the guidelines laid down by the Public Accounts Committee, in cases involving the making of public policies, the Director of Audit can only report to the Legislative Council on the matter in question, not making any judgement on the issue, but rather present facts upon which the Public Accounts Committee may make inquiry. As such, the Public Accounts Committee plays an important role in this evaluation process by following up on the Director of Audit's reports. It asks the questions which the Director of Audit is unable to ask and can reach conclusions and recommendation with regards to the political aspects of the subjects.
5.12 Not only does the Public Accounts Committee follow up on the reports of the Director of Audit and fill in the missing information, it also does these in public hearings. This has a favourable effect on publicity and can fulfill the expectation of the public on the process. The Director of Audit's reports are considered in public hearings twice a year. On these occasions, the Audit Department is seen to have satisfactorily completed its work. This creates an impression that the reports are given proper attention by Legislative Councillors and that they are valuable and legitimate evaluation of government programmes.

5.13 When the Public Accounts Committee considers the audit reports, public officers are called upon as witness before the Committee in public hearings to provide additional information and explanation on the cases reported. Information sought by the Public Accounts Committee will be politically-biased. After all, committee members are Legislative Councillors and it is their duties to question the Government on public policies.

5.14 The research will first compile statistics on the ways the Public Accounts Committee handle the reports of the Director of Audit. Each audit covered by the research will be analysed and questions will be asked on the reaction of the government departments to the audit, whether the Public Accounts Committee supports the audit findings and whether the Committee comes up with different recommendations. In particular, cases where the Public Accounts Committee have showed interest and pursued at length will be analysed in depth in order to find out the intention of the Committee and the results of its effort. It is expected that the information extracted will be able to prove whether Hypothesis 2 is true.

Hypothesis 3 - The introduction of directly elected Legislative Councillors to the Public Accounts Committee in 1991 has made the Committee more effective.

5.15 1991 is an important year to Hong Kong's political scene. The Legislative Council was dissolved in that Summer, making way for an election of many seats of the Council. In addition to 21 seats which were indirectly elected from functional constituencies, there were 18 seats which were returned by direct elections in 9 geographical regions covering the whole territory. With the newly formed Legislative Council in September 1991, a new Public Accounts Committee was appointed. The membership
of the Committee was finely balanced between political parties and directly elected Legislative Councillors were also appointed to the Committee. This newly formed Committee, similar to the Legislative Council, is expected to be more outspoken and more critical of the Administration. The Public Accounts Committee is tasked with the evaluation of government programmes through the consideration of the results of the value for money audits. In this respect, it is expected to be more focused on the issues identified than its predecessor.

5.16 The statistics compiled on the work of the Public Accounts Committee for Hypothesis 2 will be further analysed in particular for periods before and after September 1991. The numbers of audits that have been followed up, the reliance of the audit findings and the different recommendations drawn up by the Committee during these periods will be compared. The way the findings of the Committee are reported will also be compared to see if there has been any significant changes since 1991.

5.17 Directly elected Legislative Councillors in the Public Accounts Committee are expected to be more diligent and more vigilant in following up on the value for money audit reports. They have to be accountable to their electorate and the publicity generated in public hearings is also beneficial to electioneering. The information collated may be able to prove that this hypothesis is true and that the Committee has been more effective since 1991.

**Hypothesis 4 - Within the ambit of the cases selected for audit, the Audit Department/Public Accounts Committee process is still an effective means in the evaluation of government activities.**

5.18 Notwithstanding Hypothesis 1 which suggests that the Audit Department may have difficulty in exposing politically sensitive issues, the Audit Department has been productive in successfully completing a large number of audits each year. The Public Accounts Committee also has been diligent in following up on these audits. The public hearings have attracted a lot of public attention. However, the question remains whether this process is effective in evaluating government activities. This hypothesis states that it is. To prove it, statistics on the audits under research are compiled on the following questions.

5.19 The first question is on the government's response to the recommendations of the Public Accounts Committee. This is a question which can reflect the effectiveness of the Public Accounts Committee
under the existing constitutional arrangement in Hong Kong. The Public Accounts Committee may conduct public hearings, may request public officers to appear before the Committee as witnesses and may question them in public. It may also come up with recommendations on change of public policies and may criticize the government on its inefficiency and wasteful operation. However, at the end of the day, these are only presented as a report of the Committee to be tabled in the Legislative Council. It does not have sufficient power to pursue the issue. The Government, after considering the recommendations of the Public Accounts Committee, reports in a Government Minute to be tabled in the Legislative Council, stating actions taken or the reasons for not taking actions. Thus the effectiveness of the value for money audits and the effort of Public Accounts Committee on the audit reports depends on the response of the Government to the criticism made.

5.20 The second question is whether there is any improvement to the government activity as a result of the subject being included in the Director of Audit's report. Although much have been said about the Public Accounts Committee, or for that matter the Legislative Council, not having sufficient power under the colonial constitutional arrangement, the legislature in Hong Kong, by convention, can still command a high degree of respect from the Government. The recommendations of the Public Accounts Committee are not frequently ignored by the Government. The publicity generated by the public hearings of the Public Accounts Committee also has an effect on improving the accountability of the government. The process of the audit investigation may also give the government department concerned an opportunity to re-examine it operation. This question will examine whether there is any material improvement to the government activity as a result of the value for money audit on the subject being included in the Director of Audit's report.

5.21 If the statistics prove that within the ambit of the subjects chosen for value for money audit, there are improvement made to the government activities, the audit investigation-cum-Public Accounts Committee process can be considered to be an effective tools of evaluation of government programmes. This hypothesis, if proven true, may lead to serious consideration of a case for the authority of value for money audit to be strengthened in order to put this evaluation process to more effective use.
Chapter 6
Value for Money Audits Conducted by the Audit Department

The Origin and development of Value for Money Audit in Hong Kong

6.1 To understand the present system of value for money audit, the research has to look into the origin of public sector auditing in Hong Kong, which is closely related to the colonial nature of the Hong Kong Government. Before the enactment of the Audit Ordinance, Cap. 122, in 1971, the audit and certification of the accounts of the Hong Kong Government remained the responsibility of the Director-General of the Overseas Audit Department of the United Kingdom operating through a locally based official. In 1971, the position of a Director of Audit in Hong Kong was established by the Audit Ordinance. Besides having to submit the reports to the Secretary of State in London, the Director's reports were also tabled in the Legislative Council. However, there was no provision in the Audit Ordinance for the conducting of value for money audits. The origin of value for money audits in Hong Kong was an evolution from the financial audit of public works contracts and government subventions (Au, 1993, p.54). In his reports in the early 1970s, the Director of Audit mentioned on many occasions in his reports cases of irregularity and non-compliance of conditions of contracts or subvention. These reports were examined by the Legislative Councillors who found themselves increasingly difficult to have to deal with the findings of the reports as well as the Government's proposals for funding.

6.2 Such frustration was reflected in the remarks of the Hon. F.S. Li during the debate of the 1976-77 draft Appropriation Bill on 24 March 1976 (Hansard, 1976, p.694). He stated that the reports of the Director of Audit should deserve more than mere attention and positive and immediate action was necessary. In reply, the Financial Secretary mentioned that proposal might be coming forward for a Public Accounts Committee whose task would be to examine the Director of Audit's report. However, the proposed establishment of the Committee was not pursued vigorously. When the Financial Secretary was pressed by Legislative Councillors in 1977, his answer was that the government had not yet worked out how such a Committee might fit into the existing constitutional arrangement (Hansard, 19 January 1977, p.415). The above illustrated the lack of a
formal framework of accountability in a non-representative, non-democratic and colonial regime at that time. The Government then was constitutionally only answerable to the United Kingdom government (Au, 1993, p.80). However, the political pressure for a Public Accounts Committee to be set up could no longer be ignored. Upon another barrage of public criticism by non-official Legislative Councillors at the debate of the 1977-78 Appropriation Bill, the Financial Secretary finally acceded on 20 April 1977 and announced the Government's decision to set up the Committee. The Public Accounts Committee was subsequently established by Resolution of the Legislative Council on the introduction of Standing Order 60A on 10 May 1978.

6.3 From 1978 to 1984, the Public Accounts Committee met and received the evidence of witnesses in camera. Starting from September 1984, the Committee's meetings were held in public, one year after the Finance Committee's meetings were held in public to consider the budget of the government. It is important to note that the Public Accounts Committee in the United Kingdom always meet and examine the witnesses in public.

6.4 In the meantime, the Director of Audit continued to conduct value for money audits and continued to include the results of these audits in his reports, although there was no provision for such audits in the Audit Ordinance. The situation was drawn into the spotlight in 1985. The Director of Audit in his report for 1984-85, commented on the effectiveness of four government programmes: transport policy for reducing traffic congestion, universities and polytechnic student financial assistance scheme, Hong Kong Trade Development Council and the student travel scheme. On 20 November 1985, the day the Director of Audit's report was tabled in the Legislative Council, the Chief Secretary said that the appropriate forum for considering policy issues, including any that might be raised in the Director of Audit's report, was in the Legislative Council, and that controlling officers who were required to appear before the Public Accounts Committee, were rarely the officers responsible for policy, and were not therefore usually in a position to respond authoritatively on matters of policy (Public Accounts Committee Report. No.8, 1986, Appendix C). In making this statement, the Chief Secretary was actually confusing the issue of the accountability process which the Public Accounts Committee was conducting, with the legal requirements of the Public Finance Ordinance on controlling officers by implying that policy issues should not be discussed by the Committee (Au, 1993, p.64). The 1984-85 report of the Director of Audit also raised the fundamental issue of his authority to conduct value for money audit. On 5 February
1986, the Chairman of the Public Accounts Committee, the Hon. S. L. Chen, CBE, made a speech in the Legislative Council, which for the first time, publicly revealed that he was not sure whether the Director of Audit had the power to conduct value for money audit. He proposed that a review should be conducted on the power of the Director of Audit in conducting value for money audits, and that a possible solution should have regard to the special circumstances of Hong Kong and to the unique and delicate system of checks and balances whereby accountability to the Legislative Council would be maintained on the one hand and the authority of the administration would be upheld on the other (Hansard, 1986, p.591).

6.5 In November 1986, after extensive negotiations, the Chairman of the Public Accounts Committee tabled a set of guidelines to conduct value for money audits which had been agreed by the Administration. These guidelines are regarded, until today, the mandate for the Director of Audit to conduct value for money audits. However, it should be noted with concern that the guidelines are not enacted into the Audit Ordinance and hence has a doubtful legal status. It status is only assured to the extent that it was tabled in the Legislative Council and accepted by the Administration.

6.6 This brief description of the development of value for money audit has illustrated the rocky road of development of this evaluation process. Stemmed from a colonial type accountability system, the Hong Kong Government found it hard to have its operation to be evaluated from outside. The tradition of having to be accountable only to the United Kingdom instead of the legislature has led to an unhealthy development of this process. Only after being hard pressed by a legislature which was getting more democratic did the administration acceded to some improvements to the process. However, the result is still half-baked and the Director of Audit until today is still faced with constraints within the government structure and has to operate on loose ground without a solid legal backing on his authority.

6.7 Against this background, it is natural for the research to raise doubt on the ability of the Audit Department to adequately cover essential government programmes and to probe deep into issues when value for money audits are conducted. In another word, what are the breadth and depth of the value for money audits?
The Breadth and Depth of Value for Money Audits

6.8 The 105 value for money audits being analysed are classified into three types in this research. The first type is the investigation of serious waste, extravagance, inefficiency, ineffectiveness or weakness in control. The second type is the broad-based study of important government activities. The third type is the review of standard managerial operations. The classification of individual audit is made taking into account the subject matter of the audit, the facts of the case and the recommendations made in the audit report. The statistics compiled reveal that the majority of value for money audits conducted belong to the first type. 88 cases or 83.8% of all cases are considered to be investigations of this type. 15 cases, or 14.3%, are reviews of standard managerial operations. There are only two cases which are broad-based studies of government activities. One is a study on the Tolo Harbour Action Plan on the pollution control in Tolo Harbour and the other is on the government policy for the promotion of the performing arts. For an effective evaluation of government programmes, broad-based studies of government activities can provide balanced reports drawing attention to weakness as well as achievements. The auditors are required to analyse in depth the achievement of the government in the activity against agreed performance targets. This type of audit demands large amount of resources and expertise on the subjects concerned. It is difficult for studies of this type to be successfully carried out as reflected by the small number of studies conducted during the six years' period covered by the research.

6.9 The numerous number of the first type of audits also reflects on the development of value for money audits in Hong Kong. Such audits in Hong Kong started late, and was only given recognition in 1986. However, such recognition was only in the form of a set of guidelines drawn up by the Public Accounts Committee. Early audit subjects contained in the Director of Audit's reports were cases unearthed during the conducting of certification audits. Irregularities and deviation from the accounting rules were usually observed by the auditors when they examined the accounts. These observations, when followed up by proper investigation, could easily be turned into value for money audit subjects. This is one of the sources where value for money audit subjects are identified. Besides the routine checking of accounts, auditors usually have a basic understanding of the operation of the departments for which they are responsible. Thus cases of ineffectiveness or weaknesses in control in the departments can be identified easily. However, cases of this nature are
shallow in content and usually are only concerned with particular incidents. This is a bottom up approach where audit subjects are built from the day-to-day observations of the front line staff. For a more effective evaluation of government programmes, a top down approach may be a better alternative. This can be achieved by the top management looking at the performance of the government at the vantage point at policy level, and then identifying possible areas for value for money audits where accomplishment of goals and objectives can be improved and where broad-based studies can be conducted. The Director of Audit acknowledged that the first type of audits are the ones that tend to hit the headlines (Jenney, 1995, p.5). They are the horror stories which the media consider as newsworthy. These investigations are of course very necessary for an accountable government. However, in order to promote better value for money in the public sector, broad-based studies are also important even though they do tend to consume considerable amount of resources.

6.10 A good indicator of the breadth of value for money audit coverage is the numbers of value for money audits by policy areas. The figures can highlight which types of work or which areas of government operation have been chosen to be audited. The 105 value for money audits included in the research fall into 23 government policy areas. The policy area which has the highest number of audit reviews is Intra-governmental services (19 subjects), followed by Buildings, lands and planning (11 subjects). Those with 5 subjects or more are Education (8 subjects), Revenue collection and financial control (7 subjects), Transport (7 subjects), Housing (6 subjects), Public works (6 subjects), Central management of the Civil Service (5 subjects) and Internal security (5 subjects). Of these "high audit risk" policy areas, I consider that the three areas of Intra-governmental services, Central management of the Civil Service and Revenue collection and financial control to be similar because they are mainly concerned with the internal functioning of the Government. They make up a total of 31 subjects which account for 29.5% of all audit cases. Although this may not necessarily reflect that the Director of Audit has put an emphasis on these areas, it does indicate that the impact of such internal functioning of the Government can be easily felt when the issue of value for money is considered. Such internal operations are usually dictated by prescribed rules and regulations which should be well-documented. It should be relatively easy for an auditor to find out any deviation from the established practice. Audit reviews in other policy areas are more evenly spread, indicating that a conscious effort has been made on a wide coverage of value for money audits in various government policy areas. However, the dominance of cases relating to internal functions also indicates that, under the present government
structure where the Audit Department works from within the Administration, it tends to look at government programmes from the viewpoint of the civil servants instead of the members of the public. As a result, a wide audit coverage on activities can be achieved but performance at policy level are often overlooked.

6.11 This is also the perception of Legislative Councillors on the achievement of the Director of Audit. At the Special Finance Committee for the Examination of the Draft Estimates of Expenditure 1995/96 held on 17 March 1995 which I attended, the Director of Audit was questioned on the estimated expenditure of the Audit Department. The Hon. Emily Lau asked the Director why there were so few big tigers caught and whether it was for financial or policy reasons that he tended to choose some lesser items to investigate. The Director of Audit explained that he adopted a structured approach to look at the whole field of government expenditure and to follow a strategic plan which would cover all major areas. This indicates a gap between the expectation of Legislative Councillors and the capability of the Audit Department under the existing government structure. The depth and breadth of value for money audit coverage operating under the present structure where the Audit Department works as a government department with insufficient independence and unclear authority can hardly meet the expectation of the Legislative Councillors and members of the public. It follows a pattern of general surveillance on government activities and can only focus on important subjects occasionally.

Human Resource Required for Value for Money Audits

6.12 There is also a practical human resource problem with the conducting of value for money audits. The Director of Audit acknowledged that his department had to be professionalized in order to meet the changing job requirements (Ming Pao Daily News, 1995). He said that the ratio of professional officers to semi-professional officers had to be improved. By professional officers, he meant government auditors who were normally qualified accountants. This is in line with the international trend where audit methodology has been changed from the old days of transaction checking to a systems-based approach. However, the evolution of value for money audits has changed the basic nature of the job. The requirement for value for money audits have been changed from the accountancy based activities to programme evaluation work which is more suitable to be carried out by political analysts. This problem is faced by
public sector auditing institutions all over the world. Public sector auditing has its origin from government accounting. The main cadre in most public audit institutions are trained accountants. Other countries have been coping with the change in various ways ranging from the employment of special investigators to consultants. The Hong Kong Audit Department has not yet embarked on such alternatives and government auditors are still being used for the full range of value for money audits. This has an effect on the choice of audit subjects as the practitioners in the field are mostly account-oriented personnel, as well as the capability to investigate in areas which call for specialized knowledge in specific professions.

**Transition to 1997**

6.13 Like all other activities in Hong Kong, the Audit Department is also affected by the imminent transfer of sovereignty of Hong Kong to China in 1997. The Audit Department is perhaps more affected because, firstly, the Director of Audit is regarded as one of principal officers in the Basic Law and the incumbent in 1997 will be a local officer without foreign citizenship and secondly, Article 58 of the Basic Law stipulates that in 1997, a Commission of Audit shall be established in the Hong Kong Special Administrative Region and it shall function independently and be accountable to the Chief Executive. Such provision is fundamentally different from the existing Audit Ordinance which provides for the Director of Audit to submit his reports directly to the President of the Legislative Council. Constitutionally, this fundamental difference amounts to a backward step as the Director of Audit will then be accountable to the executive arm of the government, the Chief Executive, rather than to the legislature. The Director of Audit openly expressed his concern in this respect to the Constitutional Affairs Panel of the Legislative Council in its meeting on 12 June 1995 (South China Morning Post, 13 June 1995). The Panel subsequently wrote to the Government requesting that clarification be sought with the Chinese Government through the Joint Liaison Group with regard to the status of the Audit Department and its relationship with the Legislative Council after 1997. Such uncertainty has a detrimental effect to the operation of the Audit Department. Should the status of the Department become more restrictive in future, its desire to explore on sensitive issues will shrink. It will be less effective in evaluating the performance of government programmes and in providing assurance and information to the Legislative Council.
Hypothesis 1

Given the constraints stated in the preceding paragraphs and as shown by the statistics compiled on the 105 value for money audits, it can be seen that the Audit Department is faced with difficulties in identifying political sensitive cases. It targets incidents of inefficiency and ineffectiveness uncovered during its surveillance related to financial audit work and rarely tackles issues at the policy level. This phenomenon can be attributed to its limited capability and also its limited authority in pursuing issues at policy level which stemmed from the colonial nature of the Hong Kong Government and its organisational structure which the Audit Department has to share. This resembles the administrative model advocated by Herbert Simon in his Models of Man (Simon, 1957). The Auditors tend to satisfice rather than to optimize the options available to them under the bound environment created by the constraints. They will seize the audit subjects readily available to them which are satisfactory in meeting the performance targets of the Department in quantity rather than spending valuable resources in pursuing subjects which are difficult to investigate and which may not yield satisfactory results. This proves that Hypothesis 1 is true and the Audit Department, being one of the government departments within the administration, is unable to expose cases which are politically sensitive.
Chapter 7

The Work of the Public Accounts Committee

Follow-up Actions by the Public Accounts Committee

7.1 The reports of the Director of Audit are examined by the Public Accounts Committee. The Committee holds public hearings and public officers responsible for the audit subjects are requested to appear before the Committee in the public hearings to provide additional information and explanation to the audit findings. This is an important component in this evaluation process in that the process of examination is transparent to members of public and the media. The Public Accounts Committee makes use of this opportunity to question the public officers on the audit cases and it can ask the questions which the Director of Audit is not entitled to ask. The effects of the public hearings are three-fold. Firstly, public officers being questioned in public are put in the limelight for criticism. This has a deterrent effect and adds much weight to the enquiries of the Director of Audit on government activities. Secondly, the Public Accounts Committee is in a good position to ask questions relating to the merit of policy of the areas under audit. It can develop the audit cases based on the audit findings and lead the public hearing into a forum of discussion on the policy of the government. Thirdly, the attention of the Legislative Councillors on the reports of the Director of Audit will create an impression that the Director is fulfilling his role in monitoring government programmes.

Witnesses called by the Public Accounts Committee

7.2 The Public Accounts Committee usually called public officers who were responsible for the audit subjects to appear before the Committee in public hearings as witnesses to answer questions. Being questioned in public is not a pleasant experience and members of the Public Accounts Committee make full use of such occasions to their benefit in gaining popularity. Witnesses called up were usually the heads of government departments or the organisations under audit and their respective policy secretaries. There were three cases where persons outside
the Administration were called. The first one was the Planning and Financial Control by the Government on Building the Hong Kong University of Science and Technology reported in 1991. Besides the government officers from the Architectural Services Department and the Education and Manpower Branch, the Public Accounts Committee also requested the presence before the Committee Sir David Ford, the Chief Secretary, Professor Woo Chia-wei, the Vice-Chancellor and President of the University of Science and Technology, Major General Watkins, the Chief Executive of the Royal Hong Kong Jockey Club, Sir Gordon MacWhinnie, former Chairman of Stewards of the Royal Hong Kong Jockey Club, Sir S. Y. Chung, Chairman of the Hong Kong University of Science and Technology Council and its Planning Committee and Mr Ian MacPherson, the Secretary-General of the Hong Kong University of Science and Technology Planning Committee. Such line-up of important persons in front of the Public Accounts Committee was unprecedented. It can be said that the Public Accounts Committee has made use of this value for money audit report to show to the members of the public that it was capable of probing into mistakes committed by the highest level of administrators of Hong Kong. The second case was in 1993 on the Ex-Gratia Compensation for the Clearance of the Kowloon Walled City. Besides the government officials, Mr F. K. Hu, the Chairman of the Special Committee of the Housing Authority on the Clearance of the Kowloon Walled City was called by the Public Accounts Committee to explain the decision of the Special Committee on the recommended compensation package. The third case was in 1994 on the Sale of a Commercial Site in Garden Road. The General Manager of Hutchison Estate Agents, a private company, was called up by the Public Accounts Committee as witness.

**Government Departments' Reaction to the Audit Findings**

7.3 The deterrent effect of the Public Accounts Committee can also be illustrated by the reaction of the government departments to the audit findings. The findings and recommendations of the value for money audits were forwarded to the government departments concerned for comments in the drafting stage of the audit reports. The reaction of the government departments and the comments they made were duly recorded in the audit report so as to present a balanced view of both the auditors and the auditees. The research classifies the response into two broad categories: those which the government departments agreed to the audit findings and those which the government departments disagreed to the audit findings. Out of the 105 cases, there are 60% of them (63 cases) in
which the government departments agreed to the audit findings. For the other 40% (42 cases), the government departments concerned disagreed to the audit findings. A 40% disagreement seems to be a high figures given that the government departments have already been consulted on the findings before the issue of the reports.

7.4 Such significant figures can be compared to the observation of Sir Cubbon (1992, p.1) on the reaction of the heads of the government departments in the United Kingdom whose main concerns are for limiting damage to the departments and to the Ministers. In Hong Kong, owing to the increasing vigilance of the Public Accounts Committee, government departments have been concerned with defending themselves than a constructive participation and co-operation with the auditors. They tended to offer explanations to justify their own decisions and choices, and to take on a more confrontational attitude. However, such reactions did not have any effect on the deliberation of the Public Accounts Committee. They merely added more information to the audit reports which could then be seen as more impartial in presenting both sides of the stories.

What are the recommendations of the Public Accounts Committee?

7.5 The research asks two questions on the recommendations of the Public Accounts Committee. One asks whether the recommendations are the same as those contained in the audit reports and the other on the aspects of the additional recommendations if they are different. The research finds out that the Public Accounts Committee has only chosen 84 cases among the 105 cases under research for investigation in public hearings, the recommendations in 76.2% (80 cases) of them were the same as those contained in the audit reports. There were only 4 cases in which the Public Accounts Committee has made additional recommendations. They are listed as follows.

7.6 In Report No. 12, the case of inadequate strategic planning for the provision of computer services to government departments, the Public Accounts Committee recommended that the setting of priority to computer systems should be made in conjunction with the Government's resource allocation system and that an inter-departmental charging system for the services provided should be set up.

7.7 In Report No. 17, the case of planning and financial control by Government on building the University of Science and Technology, the Committee recorded different recommendations of individual members, in
particular on the adoption of the architectural design which won the award of the design competition. Some considered that the winning design should be adopted but some acknowledged that the Planning Committee should not be bound by the result of the design competition.

7.8 In Report No. 19, the case of overtime work by foreman and workman grades staff, the Committee put its emphasis on the problem of illegal carparking and illegal hawking in the housing estates in addition to the excessive overtime work reported.

7.9 In Report No. 21, the case of sale of a commercial site in Garden Road, the Committee pointed out that the failure on the part of the officials to inform the Central Tender Board of the loophole in the tender document was a serious mistake.

7.10 The number of cases which the Public Accounts Committee put forward additional recommendations is small. This indicates that the Committee is subject to time and resource constraints. It has to rely on the findings of the audit reports in its deliberation and has to be selective in the cases that it spends time to pursue. On the other hands, on the few cases where additional recommendations were made, there was a notable political overtone. The case of the Hong Kong University of Science and Technology hinted on the inner political struggling of the Committee and resulted in a report without consensus. In the case of excessive overtime, the Committee put its emphasis on the issue of illegal hawking which was a topic with much political significance. For the Garden Road commercial site case, it put its effort to proving that the officials concerned should be personally liable for the mistake.

Supplementary reports of the Public Account Committee

7.11 The effectiveness and the effort of the Public Accounts Committee may be further illustrated by the issue of their supplementary reports. According to Standing Order 60A of the Legislative Council, the Public Accounts Committee shall make their report upon the report of the Director of Audit within three months of which the Director's report is laid on the table of the Council. This time limit has in the past been able to be always adhered to. However, since 1991, the Public Accounts Committee sometimes found it necessary to conduct more in-depth investigation on certain cases, which could result in delay in the issue of its reports. The solution to this problem was that the Public Accounts Committee would issue a report before the three-month deadline on any value for money
audit cases for which it has completed its investigation. The outstanding cases would be included in a report supplementary to the original report to be issued later. There were three supplementary Public Accounts Committee reports, No.17A, 20A and 21A. The main reasons for the delay in the issue of reports were that, firstly, the Public Accounts Committee found it necessary to hold additional public hearings on the cases in order to ask further questions to the persons concerned, and secondly, the Committee members could not reach an agreement on the recommendations to be entered into the reports and additional in-house meetings were therefore held. These supplementary reports offer an opportunity for the research to look into the inner working of the Committee and the political struggle among its members.

7.12 Report 17A is on the planning and financial control by the Government on building the Hong Kong University of Science and Technology. A total of five public hearings were held and thirteen witnesses were called. They included the Chief Secretary, the current and former Secretaries for Education and Manpower, and representatives of the Royal Hong Kong Jockey Club and the Hong Kong University of Science and Technology. Another twenty-three meetings of the Public Accounts Committee were held to deliberate on the case. At the end, the meeting could not reach a consensus and the report recorded the different views of two groups of members, one comprises Mr Martin Barrow, Mr Peter Wong and Mr Simon Ip, and the other comprises Mr Martin Lee, Dr C. H. Leong and Miss Emily Lau. Such arrangement can be seen as, firstly, a demonstration of power of the Public Accounts Committee by conducting an extensive investigation into a selected value for money audit case, and secondly, a power struggle between two camps of Legislative Councillors in the Committee. It is interesting to note that despite the enormous publicity generated on the case and the accusation of the Committee on the weakness of control of the Government, the recommendations put forwarded did not have a significant impact on public policy and the case was not mentioned in subsequent reports.

7.13 Report 20A is on the Ex-Gratia Compensation for the clearance of the Kowloon Walled City. Two public hearings and five internal meetings were held. A total of eleven witnesses including the Director of Buildings and Lands, the Deputy Secretary (Lands and Planning) of the Planning, Environment and Lands Branch, and Mr F. K. Hu, Chairman of the Special Committee established under the Housing Authority, were called to appear before the Public Accounts Committee. It was likely that the Committee intended to lay the blame of the payment of the excess compensation to the Special Committee of the Housing
Authority. However, the recommendations of the Public Accounts Committee did not have any effect on the policy process and the case was not mentioned in its subsequent reports.

7.14 Report No. 21A was on two value for money audits. One is the Provident Fund and Superannuation Schemes Operated by Subvented Organizations, and the other on the Sale of a Commercial Site in Garden Road. Two public hearings were held where evidence on these two cases were presented by a total of ten witnesses. In the case of the Commercial Site in Garden Road, the witnesses included the General Manager of Hutchison Estate Agents, a private company, and also the retired Director of Buildings and Lands. Another eleven internal meetings were held before the Committee presented its recommendations. The Government acknowledged the weakness identified in the management of the provident fund and superannuation schemes and established an inter-institutional task force to review the possibility of standardization of superannuation benefits in institutions funded by the University and Polytechnic Grants Committee. In the other case, the Committee tried very hard to link the monetary gain of the private company to the negligence of the public officers concerned. However, the Government maintained that the loophole identified in the tender document for the sale of the site was a matter of misjudgment and there was no evidence of misconduct.

7.15 These supplementary reports illustrate the approach adopted by the Public Accounts Committee in the handling of the value for money audit reports. The audit reports are presented to the Legislative Council twice a year and each report may contain more than ten audit cases. It is very taxing on the Public Accounts Committee for it to investigate in depth all the cases. The approach adopted by the Committee is to choose among the audit cases subjects which would probably attract public attention and which would be beneficial to the members of the Committee politically, to be thoroughly investigated and to be given as much public exposure as possible. This may be the best the Committee can do under the existing constitutional arrangement. This can only be improved if the Public Accounts Committee is given sufficient resources for it to investigate every value for money audit cases reported.

**Hypothesis 2**

7.16 Under the present set up, the Public Accounts Committee is only a committee under the Legislative Council. All its members are Legislative Councillors and they only meet when the Director of Audit
submits his reports twice a year. Members have to meet and deliberate on these reports on top of their already heavy agenda of Legislative Council proceedings. Thus it is unrealistic to expect that the Committee is able to conduct in-depth inquiry on all the value for money audit cases reported. However, under these constraints, the Committee is still able to fulfill its role satisfactorily by properly conducting public hearings on a large number of audit cases. It also effectively chose topical issues with political value for in-depth inquiries. Such arrangement can meet the expectation of the members of the public on the monitoring role of both the Audit Department and the Public Accounts Committee on the performance of the government. On the few selected cases, the Public Accounts Committee is able to delve beyond the audit findings into the political aspects of the issues. Hypothesis 2 is therefore true in that the Public Accounts Committee can provide the legitimacy to the audits and can add a political dimension to the evaluation process.
Chapter 8

The Public Accounts Committee after the 1991 Direct Election

Composition of the Public Accounts Committee

8.1 1991 is an important year in the constitutional development of Hong Kong. For the first time, direct election was introduced for 18 seats of the Legislative Council. Consequential to the newly formed Legislative Council after the 1991 election, a new Public Accounts Committee was appointed. Corresponding to the membership of different parties in the Legislative Council, the Government has been careful in balancing the membership of the Committee accordingly. Before 1991, the chairman of the Committee was an appointed Legislative Councillor. Among the six members of the Committee, there were one appointed Legislative Councillor and five Legislative Councillors indirectly elected from functional constituencies. The Committee appointed in 1991 was chaired by Mr. Stephen CHEONG Kam-chuen, an indirectly elected Legislative Councillor of a functional constituency. Besides one member who was an appointed Legislative Councillor, all other members were elected members, with Mr. NG Ming-yum from the United Democrat and Miss LAU Wai-hing, an independent and outspoken member, who were directly elected members from geographical constituencies. Upon the death of Mr NG Ming-Yum in 1992, his seat was filled by Mr Martin Lee and subsequently by Mr CHAN Wai-yip in 1993, both of them members of the United Democrat.

8.2 The injection of directly elected members has exerted pressure on the Public Accounts Committee for it to work more diligently and more political-oriented in its approach. The Committee is an important forum for Legislative Councillors to put the Government in the limelight for wrong doings exposed in value for money audits. Elected Legislative Councillors, who are more sensitive to publicity and who tend to seize all opportunities to demonstrate their commitment to their electorate, are more inclined to make full use of this process to their political benefit. Their effort in this respect should make the Committee more effective in completing the process of evaluation in their follow-up action on the reports of the Director of Audit.
Audit subjects Selected for Public Hearings

8.3 Owing to resource constraint, the Committee might exclude some of the value for money audits reported from further investigation and exclude them from its reports. The research reveals that the Public Accounts Committee only selected 84 cases (80%) from the 105 cases reported by the Director of Audit for further investigation. It chose not to investigate nor comment on the other 20%. Further analysis reveals interesting figures. Before the 1991 direct election, the Public Accounts Committee investigated 71.7% of the audit cases reported while such percentage increased to 86.4% for the period after the 1991 direct election. It shows that the new Public Accounts Committee with directly elected Legislative Councillors has been more diligent and more thorough in pursuing the value for money audit cases reported.

Witnesses Called by the Public Accounts Committee

8.4 Public officers responsible for the subjects under audit were usually called by the Public Accounts Committee to attend public hearings as witnesses to provide additional information and explanation. Officers called were usually heads of government departments or organisations under audit and their respective policy secretaries. As mentioned in paragraph 7.2, there were three cases where the Public Accounts Committee called as witnesses persons outside the Administration. It is interesting to note that all these three cases occurred after the re-appointment of members of the Public Accounts Account in 1991. It is an indication that the desire of the members of the Committee to follow up more thoroughly on the value for money audit reports has increased since 1991 and members are more determined to question any persons involved in the audit cases.

Recommendations of the Public Accounts Committee

8.5 Paragraphs 7.5 to 7.10 listed four cases where the Public Accounts Committee had put forward recommendations which were different from the audit findings, indicating that the Committee has exercised its judgement in following up on the audit findings and has
explored beyond the results of the audit investigations. Among these four cases, there is only one case which was handled by the Committee before 1991 and was only directed at government procedures in setting priority for computer projects. The other three cases were investigated by the post-1991 Committee. This reflects a change of behaviour of the Public Accounts Committee to be more politically oriented in its follow-up work on the value for money audit reports since 1991.

**Supplementary Reports of the Public Accounts Committee**

8.6 The effort of the post-1991 Public Accounts Committee can be illustrated further by the issue of the supplementary reports. Such reports were only issued since 1991. As mentioned in paragraphs 7.11 to 7.15, they were resulted from prolonged investigation on several selected audit cases by the Public Accounts Committee. Before 1991, the Public Accounts Committee never found it necessary to issue supplementary reports and all investigations could be concluded in one hearing and the reports could always be tabled in the Legislative Council before the deadline. The lengthy and informative supplementary reports on selected value for money audit subjects produced by the Committee has reflected its improved effectiveness since 1991.

**Hypothesis 3**

8.7 Hypothesis 3 states that the introduction of directly elected Legislative Councillors to the Public Accounts Committee in 1991 should make the Committee more effective. The above research findings show that the post-1991 Public Accounts Committee has been more diligent in choosing more audit subjects for investigation. It has been more willing to call upon persons outside the Administration as witnesses in public hearings. Its deliberation has been more politically oriented and additional recommendations beyond those contained in the audit reports have been put forwarded. Its effort has also been shown in the time and resource it spent in the preparation of supplementary reports on selected cases of importance. Thus Hypothesis 3 is true and the Public Accounts Committee has been more effective since 1991 upon the introduction of directly elected Legislative Councillors to the Committee.
Chapter 9
The Effectiveness of the Value for Money Audit Process

The Audit Department/Public Accounts Committee Process

9.1 Within the constraints identified in Chapter 6, the Audit Department has been productive in successfully completing a large number of audits each year. The Public Accounts Committee also has been effective in following up on these audits and its public hearings have attracted a lot of public attention. However, whether the process is effective in evaluating government activities will depend on the Government's favourable response to the recommendations of the Public Accounts Committee. In this respect, the research analyses the outcome of the value for money audits as perceived by the Public Accounts Committee in its reports.

Government's Response to the Recommendations of the Public Accounts Committee

9.2 The Government's response to the recommendations of the Public Accounts Committee is contained in the Government Minute submitted to the Legislative Council. The Public Accounts Committee examines the Government Minute and comments in its subsequent reports the action taken by the Government. Such follow-up comments of the Public Accounts Committee are indication that the Government has made material response to the recommendations of the Committee. It should be noted that even when the Public Accounts Committee has not reported further in its subsequent reports on a particular audit case, it does not mean the Government has not responded to the recommendations of the Public Accounts Committee. However, its response may be insignificant to warrant further comments by the Committee. These may be cases simple in nature, involving only a particular incident of wastage, or where the Committee only recommended the Government to take note of the lessons to be learnt from a value for money audit.
9.3 There are 49 cases, or 58.3% out of the 84 cases investigated, where the Public Accounts Committee commented on the Government's responses to its recommendations. This shows that the Government has responded sufficiently in the majority of the cases. Breakdown of the figure to periods before and after the 1991 direct election shows that the Public Accounts Committee has commented on 21 cases (63.6%) and 28 cases (54.9%) respectively the response from the Government. This finding indicates that the overall response of the Government towards the recommendations of the Public Accounts Committee has always been on the positive side irrespective of the change in composition of the Committee since the 1991 direct election.

**Improvement Made to Government Programmes**

9.4 As a result of the activity being audited for its value for money and reported by the Director of Audit, the government programme concerned can usually be benefited with improvement observed. 73.3% (77 cases) of the 105 value for money audits researched indicated that there were improvements to the government programmes concerned as a result of the audit. Figures before and after the 1991 direct election are 65.2% (30 cases) and 79.7% (47 cases) respectively. Improvements to government programmes were usually made in response to audit findings and recommendations, or indirectly as a result of the fact that the government activities have been subjected to audit scrutiny, which offered an opportunity for the re-examination of the activities. There is no evidence that the increase in percentage during the period after the 1991 direct election can be attributable to the behaviour of the Public Accounts Committee. However, a high percentage of cases for which improvements are made to the government programmes concerned indicates that value for money audit process with audit investigations followed up by Public Accounts Committee inquiry has been successful in fulfilling its function in ensuring that government activities are value for money.

**Hypothesis 4**

9.5 The above statistics indicate that the Audit Department/Public Accounts Committee process in the conducting of value for money audits has been effective in identifying areas of improvement in government activities and Hypothesis 4 is therefore true. This past achievement has
been proven even with the constraints faced by the Audit Department and the Public Accounts Committee. This shows that the value for money audit process, which has been adopted by developed countries worldwide, is an effective means in the evaluation of government activities. To make better use of this evaluation tool, the status and capability of the Audit Department should be strengthened and additional resources should be allocated to the Public Accounts Committee.
Chapter 10

Conclusions

10.1 The research approaches separately the two actors in the value for money audit process, namely the Audit Department and the Public Accounts Committee respectively. Hypothesis 1 targets the performance of the Audit Department. Hypotheses 2 and 3 are on the behaviour of the Public Accounts Committee in general and the change in its behaviour since the 1991 direct election. Hypothesis 4 deals with the effectiveness of the process as a whole.

The Inability of the Audit Department to Report on Politically Sensitive Issues

10.2 Notwithstanding the publicity generated by the reports of the Director of Audit twice a year, it remains doubtful whether the Director is able to report on political sensitive issues. This is the main point of Hypothesis 1 of the research which has been proven true in Chapter 6. The major reason for such reservation is the status of the Audit Department within the government structure. Although the appointment and the security of tenure of the Director is protected by the Audit Ordinance, the operation of the department is still subject to government regulations, notably the financing of the department and the employment of its staff.

10.3 The effort of the Director of Audit in the conducting of value for money audits can be seen from the coverage of the audits on government policy areas. During the planning stage of the audits, general surveys on auditees are carried out in order to provide an understanding of their main activities and principal resources. Five-year strategic plans are prepared and they form the basis of a programme of work for value for money audits which is determined by Director of Audit (Director of Audit's Report No. 23, 1994a, p.302). The coverage of the value for money audits studied in the research is wide, covering 23 different policy areas. However, it is also observed that the area which has attracted the largest number of audit subjects is the internal government activities.
In terms of quantity, the Audit Department has been effective in producing sufficient numbers of value for money audits. The results of 105 value for money audits were presented in 11 reports, averaging 9.5 audits per report. The large number of cases arising from internal government activities indicates the strength of the department which is derived from its traditional role of financial auditing. Inspection of books and records and checking of compliance to rules and regulations are traditional duties of government auditors. Subjects exposed by front line audit checking are a major source of value for money audit cases. The Audit Department has been very effective in making use of its ties in government departments established in the course of financial audit to fulfill its duties in ensuring value for money in government operations.

Audit subjects reported are mainly cases of serious waste and extravagance, inefficiency, ineffectiveness or weakness in control, and also reviews of standard managerial operations. The Audit Department has effectively fulfilled its monitoring role as a watchdog to ensure that the government departments are economical, efficient and effective in discharging their functions. Such monitoring duties are essential to meeting the expectation of members of the public. However, audit investigations at a higher level, involving broad-based studies of important government activities, are very few. Broad-based studies can offer a balanced analysis on the selected government activities. Instead of the investigation of particular incidents, the studies can trace the goals and objectives of government programmes and evaluate the achievement of the government in meeting them. This should be a better way to evaluate government programmes.

There are three reasons for the scarcity of broad-based studies being included in the Director of Audit's reports. Firstly, the scale of these broad-based studies is much bigger than audit investigations of waste and extravagance. Their demand on the professional knowledge of the auditors on the issues under audit is high and the amount of resource required to undertake the studies is large. For the effective use of resources, the auditors have to spend a sufficient amount of their time to deal with cases of waste and extravagance already identified. Thus only a limited number of broad-based studies can be pursued within the limit of resources allocated. Secondly, the way the Audit Department draws up its plans for audit, based on general survey on government departments, is conducive to the discovery of irregularities. This approach from bottom up deprives the auditors from seeing the government programmes from the level of organisational goals and objectives. Thirdly, broad-based studies inevitably
add a political dimension to the evaluation process. In considering the achievement or otherwise of a government programme, it is very difficult for the evaluator to comment only on the aspect of implementation of policies. The results of such studies could easily be related to the merits of policy objectives, which the Director of Audit has to avoid in his reports. Weiss stated in the article Where Politics and Evaluation Research Meet (Palumbo, Ed., 1987, p.48) that by the very nature of evaluation, it made implicit political statements about such issues as the problematic nature of some programmes, the unchallengeability of others, the legitimacy of programme goals and programme strategies. Broad based studies are typically evaluation of policies at this level where it is very easy to impose a political interpretation to the results of the audits.

10.7 The constraints stated above are the legacy of the Hong Kong colonial administration under which the Audit Department operates. Unlike the systems of public sector auditing in other countries covered in Chapter 3, the Audit Department is not an independent organisation directly accountable to the legislature. It is a government department within the administration. Furthermore, value for money audit in Hong Kong was only officially recognised in 1986, but merely by a set of guidelines drawn up by the Public Accounts Committee. Its development is still influenced by the traditional type of government auditing of maintaining regularity and propriety in government activities. Furthermore, the uncertainty created by the provisions in the Basic Law on the status of the Audit Department after 1997 also have a detrimental effect on its future development. Such limitations in the capability of the Audit Department are the main reasons of its inability to report on political sensitive issues.

The Public Accounts Committee's Examination of the Director of Audit's Reports

10.8 The Public Accounts Committee's examination of the Director of Audit's reports adds the necessary political dimension to the evaluation process. It provides the legitimacy to the value for money audit reports. This phenomenon is stated in Hypothesis 2 and is explored in Chapter 7. The effort of the Public Accounts Committee has stepped up since 1991 when directly elected Legislative Councillors were introduced to the Committee. This has made the work of the Committee more effective. Such change in behaviour is studied in Chapter 8 by comparing the pre-1991 and post-1991 performance of the Public Accounts Committee. The contribution of the Public Accounts Committee's examination of the
Director of Audit's reports to the evaluation process can be reflected, firstly, by the way it pursues the audit subjects in public and, secondly, by the recommendations it made on the cases.

10.9 The Public Accounts Committee has been diligent in following up on 80% of the value for money audits reported. During the investigation of these cases, the Public Accounts Committee called up the heads of government departments or organisations responsible for the audit subjects, and also their respective policy secretaries to appear before the Committee to answer questions in public hearings. The publicity and the media coverage of the public hearings are the effective means to show to members of the public that the Public Accounts Committee is fulfilling its duties. The Committee has been effective in making use of the public hearings. In selected cases, it called up a large number of high level officials and important persons connected with the audit subjects to answer questions and created hot topics for the media which attracted the attention of a large population.

10.10 In pursuing the value for money audit reports, the Public Accounts Committee relied heavily on the audit findings and recommendations. Only in a few selected cases could the Committee come up with recommendations which were different from that of the audit reports. In other countries, value for money audit reports are followed up by Committees of the Congress (in the United States of America) and Parliaments (in the United Kingdom and Australia). Public hearings of these Committees are important political events where the administration and the ruling political parties are criticised. The Hong Kong Public Accounts Committee seems to lack the flare of such magnitude. In most of the cases it pursued, public officers were only questioned on the audit findings. Recommendations of the Committee were also largely similar to that put forward by the auditors.

10.11 However, this does not mean that the Public Accounts Committee in Hong Kong is not sufficiently politically-charged. The main reason for the selective approach adopted by the Committee is the way it has chosen to best utilize its resources. The present arrangement of requiring the Director of Audit to submit two reports a year on the value for money audits completed has resulted in the Public Accounts Committee having to face two bulky reports every year each containing an average of about 10 value for money audit subjects. These subjects contain in-depth analysis conducted by the auditors over a lengthy period. It is very difficult for members of the Committee, being Legislative Councillors with their own heavy agenda, to critically deliberate on all the subjects within a short
period of time. The approach they have taken is first to discard a few cases which were not significant (about 20%) from further investigation, and then select one or two subjects which were considered to be politically sensitive for in-depth investigation. This can ensure that a majority of the cases are covered in the inquiries by the Committee and can sustain the interest of the public and the media on the work of the Committee focusing on a few news-worthy cases.

10.12 This approach adopted by the Committee is particularly felt since the appointment of the new Public Accounts Committee after the 1991 direct election when directly elected Legislative Councillors were introduced to the Committee. These members are more politically motivated and are more sensitive to satisfying the expectation of members of the public. As detailed in Chapter 8, the Committee have, since 1991, pursued on a larger number of value for money audit cases and have put in more effort in the investigation of the selected important cases. This has resulted in the production of supplementary Public Accounts Committee reports specifically on the investigation of the few selected cases in 1992, 1993 and 1994.

The Effectiveness of the Process of Value for Money Audit

10.13 The process of evaluation of government programmes by the combined effort of the Director of Audit in conducting value for money audits and the Public Accounts Committee following up on the cases in the political level has been proven to be an effective tool in improving the accountability of the administration. This has been achieved within the ambit of the cases selected for audit and within the constraints faced by the Audit Department. This is Hypothesis 4 of the research which has been proven true in Chapter 9.

10.14 Although under the existing constitutional arrangement, the Public Accounts Committee and also the Legislative Council, do not have the power to directly change government policies, the recommendations put forward by the Committee, are by convention normally accepted by the Government. The Public Accounts Committee has commented in its reports on a large number of cases where the government has made substantial effort in pursuing the recommendations of the Committee. In this respect, the process has been effective, through the examination of the
Public Accounts Committee on the value for money audit reports, in providing an impetus for improving the government programmes. The research has also identified that in a majority of cases studied, there were improvements to the government programmes concerned as a result of the audit.

10.15 Although Hong Kong can be considered a new comer in using this process, value for money audit work has already gained the attention of the community. The bi-annual events of the scrutiny by the Public Accounts Committee on the Director of Audit's report always arouse interest among members of the public and attract wide media coverage. The investigation of the Committee is becoming increasingly effective since the 1991 direct election with members of the Committee being more vigilant in public hearings. The research has reached a conclusion that the value for money audit process is an effective tool in the evaluation of government programmes. To make better use of this evaluation tool, consideration must be given to remove the constraints in the present system in order to make the process more effective.
Chapter 11

Recommendations

11.1 The process of value for money audits can be separated into two distinct stages. The first one is the work of the auditors in identifying audit subjects, investigating the issues, discussing with the auditees and then presenting their findings and recommendations to the Public Accounts Committee. The second stage comprises the involvement of the Public Accounts Committee and includes the Committee's scrutiny of the Director of Audit's report, the tabling of the Public Accounts Committee's reports in the Legislative Council and the response of Government to the recommendations of the Committee. There are constraints in these two stages which need to be addressed in order to make this evaluation tool more effective.

11.2 In order to make the audit investigations more effective in the evaluation of government programmes, the Director of Audit should embark on more board-based studies on the activities of the government. Such studies can provide a balanced view on the government programmes which have a direct impact on the community and should be used more frequently in the evaluation of government programmes.

11.3 To enable the Director of Audit to better discharge his duties in this respect, the status of the Audit Department should be re-positioned to resemble those in other advanced countries where the government audit offices report directly to the legislature. An independent office status similar to the United Kingdom National Audit Office may be considered, with the Audit Department given the autonomy in handling its own financial resource and in employing its own staff directly. The Director of Audit can be made accountable directly to the Legislative Council through the Public Accounts Committee on the management of the department.

11.4 The resources to be allocated to the Audit Department may have to be increased so that additional time and external expert advice can be obtained for the conducting of more broad-based studies. This will be financial resource which the Audit Department can utilize, firstly to employ sufficient staff at suitable professional level in order to effectively
conduct broad-based study type of value for money audits, and secondly, to employ the service of consultants to assist in audit investigations for which specialised technical qualifications and experience are required.

11.5 In order to identify suitable subjects for broad-based studies, the Audit Department will need to re-design its planning process and to look at government programmes from a higher level concentrating on organisational goals and objectives of government departments. Such top down approach will enable the department to select from the many well defined policy areas and government programmes suitable broad-based subjects for audit investigations on their value for money.

11.6 With regard to the investigations of the Public Accounts Committee on the audit reports, the process can be more effective if the Committee can carry out in-depth investigations on all the cases reported. To resolve its resource constraint, the Committee should consider co-opting additional members other than Legislative Councillors to assist in the investigations. These co-opted members can be academics and professionals who have specialized knowledge in specific subject areas. They can provide expert advice on issues where the Legislative Councillors are not familiar with. An expanded Public Accounts Committee will be able to spend more time in investigating all cases in depth and to conduct more hearings in public. As a result, it may also uncover additional issues on the audit subjects and put forward additional recommendations to supplement those proposed by the Director of Audit.

11.7 The present arrangement of requiring the Director of Audit to submit two bulky reports a year should also be changed. The Director should be given the freedom to submit his reports more frequently but in smaller batches. The practice in the United Kingdom where the National Audit Office submits its value for money audit reports on each audit subjects individually to the Parliament may be considered. If the audit reports are submitted individually or in small batches throughout the year, the work of the Public Accounts Committee can then be evenly spread out. Consequently, the Committee may be able to concentrate on the few reports submitted each time and to investigate in depth all of them. These are suggested ways which can put the value for money audit process into more effective use in the evaluation of government programmes.

- End -
APPENDICES

1 List of Value for Money Audits Reported From October 1988 to March 1994

2 Results of Analysis of Value for Money Audits on Type of Audit, Response of Government Departments, PAC Recommendations, Improvements to Government Programmes and Policy Areas under Audit

3 Government's Response to the Recommendations of the Public Accounts Committee on Value for Money Audits

4 Membership of the Public Accounts Committee

5 Standing Order 60A of the Legislative Council

6 Paper presented to the Legislative Council by the Chairman of the Public Accounts Committee at the sitting on 19 November 1986 on Scope of Government Audit in Hong Kong - 'Value for Money' Studies
Appendix 1

List of Value for Money Audits Reported
From October 1988 to March 1994

Director of Audit's Report No.12 (October 1988)

12.01  Inadequate strategic planning for the provision of computer services to government departments

12.02  Management of the government vehicle fleet

12.03  Chargeable water in government quarters without separate meters

12.04  Student travel scheme

12.05  Advertising signs on buildings & land in Hong Kong

12.06  The work of the lease enforcement unit in the Urban District Lands Offices

12.07  Control of staff levels in correctional services institutions

12.08  Problems arising from using separate contracts for roadworks & related waterworks at the same site

Director of Audit's Report No.13 (March 1989)

13.01  Hong Kong International Airport charging policy

13.02  The cost effectiveness of the Mount Butler Quarry

13.03  Retraining of secondary school teachers

13.04  The cost of administering educational trust funds

13.05  Agreements with the power companies for public lighting

13.06  The deployment of staff in managing the postal workload
13.07 Management of police vehicles

13.08 Under-utilization of the Mui Wo Sewage Treatment Plant

**Director of Audit's Report No.14 (October 1989)**

14.01 Management & control of end-user computing within the government

14.02 Fees and charges

14.03 The inadequacy of the government policy for the promotion of the performing arts

14.04 The administration of the government subvention to the Consumer Council

14.05 Student travel scheme

14.06 Control & distributions of hospital linen

14.07 Public assistance review system

14.08 Delays in the final measurement of building contracts

14.09 Construction of quarters for senior government staff at Hong Kong Parkview & the sale of quarters to developer

14.10 Remodelling of Mong Kok Railway Station: late design changes to the transport interchange

14.11 Administration of general security services contracts in housing estates

**Director of Audit's Report No.12 (March 1990)**

15.01 The cost of administering educational & charitable trust funds

15.02 Payment of allowances to officers posted to Hong Kong Government overseas offices
15.03 Inconsistencies in granting the award of incremental credit for experience

15.04 Rent charged to Urban Council for using government office accommodation

15.05 Redemption of outstanding New Territories Land Exchange Entitlements (letter B) - revenue forgone by the government

15.06 The provision of government primary & secondary schools

15.07 The computerization of the Companies Registry Indexing System

15.08 Accident compensation schemes

15.09 Management expenses for the bus terminus at Exchange Square

15.10 Under-utilization of a site for construction of a water supplies operational & service centre in North Point

**Director of Audit's Report No.16 (October 1990)**

16.01 Measures to improve the debt recovery procedures of the Fixed Penalty System (Traffic Contravention)

16.02 Fees and charges

16.03 Private recreational leases - use of grounds by other organization

16.04 Management of leased office accommodation

16.05 Community nursing service

16.06 Production of public affairs television programmes

16.07 The charging of water through rates

16.08 Management of bank accounts of the Housing Authority

16.09 Management of estate car parks
Director of Audit's Report No.17 (October 1991)

17.01 Buying back of pensionable service by contract officers on transfer to pensionable terms

17.02 Measure to reduce the incidence of delays in the completion of utility works on Hong Kong roads

17.03 The standard rate method of rental assessment for the temporary use of land in the New Territories

17.04 Programmes for the voluntary treatment & rehabilitation of drug abusers

17.05 Vehicle pool charges

17.06 Provisions & management of departmental quarters

17.07 The computerization of urban land registration records

17.08 Rehabilitation services for disabled persons

17.09 The billing of water accounts

17.10 Planning & financial control by government on building the Hong Kong University of Science & Technology

17.11 Omission to define the tunnel area in the Tate's Cairn Tunnel franchise

17.12 Performance bonds for capital works contracts

17.13 Queen Mary Hospital extensions & improvements

17.14 New style furniture & new office space standards for non-directorate staff

17.15 Management of vacant domestic rental flats
**Director of Audit's Report No.18 (March 1992)**

18.01 Implementation of the policy of suspension of pensions for pensioners re-employed in the public service

18.02 Hong Kong Export Credit Insurance Corp - Determination of the corporation's capital and reserves

18.03 Computerization of the Employees' Compensation Unit

18.04 Abuse of policy governing the registration & licensing of goods vehicles

18.05 The reprovisioning of the Inland Revenue Department to Wanchai Tower III

18.06 Supply of waterworks materials

**Director of Audit's Report No.19 (October 1992)**

19.01 Management of community centres & community halls under the community building programme

19.02 Transportation storage and disposal of seized and detained goods

19.03 Delays in occupying premises for government institution and community purposes at the Whampoa dockyard redevelopment

19.04 Redevelopment of the oil street site presently occupied by the Government Supplies Department

19.05 Old age allowance

19.06 Internal audit activities in government departments

19.07 The formula price adjustment system

19.08 Marine disposal of contaminated mud

19.09 Reprovisioning of ferry piers in Kwun Tong
19.10 Delay in paying land cost of domestic flats constructed & sold under the home ownership scheme

19.11 Overtime work by the foreman and workman grades staff

**Director of Audit's Report No.20 (March 1993)**

20.01 The non-charging of interest on loans to profit-making schools in the bought place scheme

20.02 Assessment of profits tax on profits from the sale of properties by unincorporated businesses & individuals

20.03 Pricing strategy & service standards for inland & surface mail

20.04 The mechanised letter sorting system

20.05 Ex-gratia compensation for the clearance of the Kowloon Walled City

20.06 The curtailment of the Kowloon East Regional Police Headquarters project

20.07 Lucky vehicle registration marks

**Director of Audit's Report No.21 (October 1993)**

21.01 Licensing of travel agents and self-regulation scheme of the outbound travel industry

21.02 Provident fund and superannuation schemes operated by subvented organization

21.03 Storage function of the Government Supplies Department

21.04 Disaster recovery planning for government computer installations

21.05 Court costs relating to fixed penalty proceedings

21.06 Court Prosecutors

21.07 The problem of indebtedness of some officers of the Police Force
21.08 Payment of fees to consultants for lump sum fixed price contracts
21.09 The Tolo Harbour Action Plan
21.10 Sale of a commercial site in Garden Road

**Director of Audit's Report No.22 (March 1994)**

22.01 Licensing of hotels guesthouses and clubs
22.02 The appointment of the Government's Overall Financial Adviser
22.03 Delay in the submission of dimension books by maintenance contractors
22.04 Diamond Hill Development - Area B site formation
22.05 Motor vehicle examination centres
22.06 Delay in the computerization of property maintenance
22.07 Hong Kong International Airport Multi-storey carpark - Scheme to provide an additional drop-off zone
22.08 The utilization of sites for fire stations and ambulance depots
22.09 Provision and utilization of space in the Housing Authority Headquarters Building
22.10 The Urban Ticketing System
## Appendix 2

Results of Analysis of Value for Money Audits on Type of Audit, Response of Government Departments, PAC Recommendations, Improvements to Government Programmes and Policy Areas under Audit

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Keys:

(a) Type of Value for Money Audits: 1 = Type 1, waste and extravagance; 2 = Type 2, broad-based study; 3 = Type 3, major system review

(b) Government's response to the audit findings: 1 = Agreed to audit findings; 2 = Disagreed to audit findings

(c) Public Accounts Committee's recommendations: S = Same as audit recommendations; A = Additional recommendations; N = No recommendation, case not investigated

(d) Whether improvements were made to government programmes: Y = Improvements were made; N = No improvement
Appendix 3

Government's Response to the Recommendations of the Public Accounts Committee on Value for Money Audits

12.01 Financial circular issued in 1989 to govern the provision of resources based on 5-year plans instead of individual projects; consultancy review conducted

12.02 Financial circular issued urging departments to be cost-conscious in building vehicle fleets; GLTA circular issued reminding officers to use public transport whenever possible

12.03 Civil servant should pay full cost of water; individual water meters installed

12.04 No PAC recommendation

12.05 Government's response not recorded

12.06 Acknowledged the inability to enforce lease conditions in non-industrial buildings on land with unrestricted lease conditions and the ineffectiveness of the lease enforcement unit in the Urban District Lands Offices

12.07 Manpower planning review conducted by Finance Branch and Correctional Services Department; manning criteria revised

12.08 Government's response not recorded

13.01 Government's response not recorded

13.02 Quarry to be closed

13.03 A working group recommendation on revised mode of retraining courses was introduced in 1991
13.04 Government's response not recorded
13.05 No PAC recommendation
13.06 Mechanizing other postal operations besides letter sorting; electronic stamp vending machines and computerized mail redirection service introduced
13.07 No PAC recommendation
13.08 Water Pollution Control Ordinance to be amended requiring connection to sewer
14.01 Central Register of common microcomputer applications set up and more training provided to users
14.02 New fees and charges review system introduced
14.03 Government's response not recorded
14.04 Review of the operation of the CACs and the development of performance standards
14.05 No PAC recommendation
14.06 Extension of the FIQ system to more hospitals
14.07 New arrangements for review cycles; manning standards revised and surplus posts deleted
14.08 No PAC recommendation
14.09 Government's response not recorded
14.10 Government's response not recorded
14.11 No PAC recommendation
15.01 No PAC recommendation
15.02 No PAC recommendation
15.03 Government's response not recorded
15.04 No PAC recommendation
15.05 Government's response not recorded
15.06 Education Department Working Group formed to review policy on government schools
15.07 A limited index of directors to be used in the interim
15.08 Government's response not recorded
15.09 Property Working Group to review policy on payment of management expenses by government
15.10 No PAC recommendation
16.01 Government's response not recorded
16.02 New fees and charges review system introduced
16.03 Sports Development Board formulated 5-year strategic plan which encouraged increased use of grounds to promote sports at the district level
16.04 No PAC recommendation
16.05 Working Party on Primary Health Care recommended better use of the service on a district basis; utilization enhanced, performance measures developed
16.06 Government's response not recorded
16.07 Water Accounts Committee to take into account PAC recommendations
16.08 No PAC recommendation
16.09 No PAC recommendation
17.01 Government's response not recorded
17.02 Improved co-ordination by the Joint Utilities Policy Committee and the Utilities Technical Liaison Committee to supplement the three Regional Road-Opening Co-ordination Committees of the Highway Department

17.03 Government's response not recorded

17.04 Treatment and Rehabilitation Policy Review Committee set up

17.05 Government's response not recorded

17.06 No PAC recommendation

17.07 Government's response not recorded

17.08 No PAC recommendation

17.09 Government's response not recorded

17.10 Government's response not recorded

17.11 Government's response not recorded

17.12 No PAC recommendation

17.13 Government's response not recorded

17.14 Government's response not recorded

17.15 Government's response not recorded

18.01 Government's response not recorded

18.02 Consultancy study commissioned

18.03 Government's response not recorded

18.04 Freight Transport Survey commissioned

18.05 No PAC recommendation

18.06 No PAC recommendation
19.01 Study on the role of community centres recommended the transfer of the management to Social Welfare Department

19.02 Government’s response not recorded

19.03 Government’s response not recorded

19.04 Inter-departmental working group recommended that the depot to be relocated to Chai Wan

19.05 Government’s response not recorded

19.06 No PAC recommendation

19.07 Working Group on Labour and Material Indices reviewed how plant should be catered for in the system

19.08 Government’s response not recorded

19.09 Government’s response not recorded

19.10 Land costs paid; interest payment be included in outstanding accounts in future

19.11 Government's response not recorded

20.01 No PAC recommendation

20.02 Government’s response not recorded

20.03 Pricing strategy will be considered at the end of the current reviews of postal policy and the target rate of return

20.04 Post Office to encourage public and government departments to use MLSS-compatible mail

20.05 Government’s response not recorded

20.06 Government’s response not recorded

20.07 Government’s response not recorded
21.01 Government action plan drawn up for the review of the self-regulation of the outbound travel industry in 1994-95

21.02 Inter-institutional Task Force to review the possibility of standardization of superannuation benefits in UPGC-funded institutions

21.03 Government Supplies Department Management Review conducted

21.04 Better utilization of Development and Disaster Recovery Bureau planned; disaster recovery facilities for mid-range systems in 1995

21.05 No PAC recommendation

21.06 Additional Court Prosecutors posts to be created

21.07 Measures to be taken by Commissioner of Police to tackle the problem; six-monthly indebtedness surveys to be conducted

21.08 Government's response not recorded

21.09 Situation not improved; slippage in effluent export scheme; pollution load cannot be ascertained

21.10 A question of judgement but no evidence of misconduct

22.01 Secretary of Home Affairs to pursue full cost recovery of the licensing scheme

22.02 Secretary for Treasury to review the monitoring and evaluation arrangements for financial consultants

22.03 Director of Architectural Services to tighten control on submission of dimension books

22.04 Director of Civil Engineering to consider full financial implications of contracts in future

22.05 Transport Department to review fee and to modernize centres

22.06 Thorough feasibility studies on computerization projects to be conducted in future
22.07  Project management guidelines to be followed in future

22.08  Finance Branch to co-ordinate combined projects

22.09  Government standard to be adopted in Housing Authority HQ

22.10  Director of Urban Services to improve the productivity of URBTIX
Appendix 4

Membership of the Public Accounts Committee

Since October 1988 (for Reports No. 12, 13, 14, 15, 16)

Peter POON Wing-cheung, OBE (Chairman)
Stephen CHEONG Kam-chuen, CBE
HO Sai-chu, OBE
CHUNG Pui-lam
Martin Barrow, OBE
LEONG Che-hung
Peter WONG Hong-yuen

Since October 1991 (for Report No. 17)

Stephen CHEONG Kam-chuen, CBE (Chairman)
Martin Barrow, OBE
LEONG Che-hung, OBE
Peter WONG Hong-yuen, OBE
Simon IP Sik-on
Emily LAU Wai-hing
NG Ming-yum
Since February 1992 (for Reports 17A and 18)

Stephen CHEONG Kam-chuen, CBE (Chairman)
Martin Barrow, OBE
LEONG Che-hung, OBE
Peter WONG Hong-yuen, OBE
Simon IP Sik-on
Emily LAU Wai-hing
NG Ming-yum (until 20.2.92, on sick leave)
Martin LEE Chu-ming, QC (from 21.2.92)

Since October 1992 (for Report No. 19)

Stephen CHEONG Kam-chuen, CBE (Chairman)
Martin LEE Chu-ming, QC
Martin Barrow, OBE
LEONG Che-hung, OBE
Peter WONG Hong-yuen, OBE
Simon IP Sik-on
Emily LAU Wai-hing
Since March 1993 (for Reports No. 20 and 20A)

Stephen CHEONG Kam-chuen, CBE (Chairman until 18.5.93)

Peter WONG Hong-yuen, OBE (Chairman from 4.6.93, member until 3.6.93)

Martin Barrow, OBE

LEONG Che-hung, OBE

Albert CHAN Wai-yip (from 19.4.1993)

Simon IP Sik-on, OBE

Emily LAU Wai-hing

Roger LUK Koon-hoo (from 4.6.93)

Since October 1993 (for Reports No. 21, 21A, 22)

Peter WONG Hong Yuen, OBE (Chairman)

Martin Barrow, OBE

LEONG Che-hung, OBE

Albert CHAN Wai-yip

Simon IP Sik-on, OBE

Emily LAU Wai-hing

Roger LUK Koon-hoo
60A. 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 Legislative 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.

(1A) 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 organisation to which his function as Director of Audit extend by virtue of any Ordinance or which receives public moneys by way of subvention.

(2) The Committee shall consist of a chairman and six members to be nominated by the President, all of whom shall be Members other than ex-officio Members. The chairman and two other members shall constitute a quorum. In the event of the temporary absence of the chairman, the Committee may elect a chairman to act during that absence.

(3) A report mentioned in -

(a) paragraph (1) shall be deemed to have been referred by the Council to the Committee for consideration upon its receipt by the President;

(b) paragraph (1A) shall be deemed to have been referred by the Council to
the Committee when it is laid on the table of the Council.

(3A) Unless the chairman otherwise directs, members of the public and of the press shall be admitted as spectators at meetings of the Committee attended by any person called by the Committee under paragraph (4).

(4) The chairman or the Committee may call any public officer, or, in the case of a report on the accounts of or relating to a non-government body or organisation, any member or servant 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 their duties; and the Committee may also call any other person to assist the Committee in relation to any such information, explanation, records or documents.

(5) 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.

(5A) The Committee shall make their report upon the report of the Director of Audit mentioned in paragraph (1A) 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.

(6) Subject to these Standing Orders, the practice and procedure of the Committee shall be determined by the Committee.
Appendix 6

Paper presented to the Legislative Council by the Chairman of the Public Accounts Committee at the sitting on 19 November 1986 on Scope of Government Audit in Hong Kong - 'Value for Money' Studies

SCOPE OF WORK

The Director of Audit may carry out examinations into the economy, efficiency and effectiveness with which any branch, department, agency, other public body, public office, or audited organization has discharged its functions.

The term "Audited Organization" 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 organization which receives more than half its income from public moneys (this should not preclude the Director from carrying out similar examinations in any organization which receives less than half its income from public moneys by virtue of an agreement made as a condition of subvention);

(iii) any organization the accounts and records of which the Director is authorized in writing to audit by the Governor in the public interest under section 15 of the Audit Ordinance.

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 branch, department, agency, other public body, public office, or audited organization 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

1. 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 points out its financial implications. Subject to these Guidelines, he will not comment on policy decisions of the Executive and Legislative Councils, save from the point of view of their effect on the public purse.

2. 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.

The Director of Audit may also,

3. consider as to whether policy objectives have been determined, and policy decision taken, with appropriate authority.

4. consider whether there are satisfactory arrangements for considering alternative options in the implementation of policy, including the identification, selection and evaluation of such options.

5. 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.

6. consider as to whether there is conflict or potential conflict between different policy aims or objectives, or between the means chosen to implement them.
7. 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, etc. have been considered, and are reviewed as costs change.

8. be entitled to exercise the powers given to him under section 9 of the Audit Ordinance.

Revised Codicil* to the Paper

"Scope of Government Auditing in Hong Kong -'Value for Money' Studies"** tabled by the Chairman of the Public Accounts Committee in the Legislative Council on 31 March 1993

The Director of Audit shall report his findings on value for money studies in the Legislative Council twice each year. One report shall be combined with his annual report on the accounts of the Hong Kong Government which he submits to the President of the Legislative Council within seven months of the end of the financial year, or such longer period as the Governor may determine. The combined report shall be handled in accordance with Section 12 of the Audit Ordinance, Chapter 122. 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 Governor may determine. By the 30th April or such date as the President may determine, copies shall be laid before the Legislative Council.

On submission of the Director's second report to the President, the Clerk to the Legislative Council shall supply copies to Members of the Public Accounts Committee, the Financial Secretary, the Secretary for the Treasury and the Director of Accounting Services.

Relevant extracts shall also be supplied to controller officers and third parties to whom there is reference in this report. The content of this report will not be made public before the report is tabled in the Legislative Council. The procedure to be followed by the Public Accounts Committee in considering the Director's reports, is specified in Standing Order 60A of the Legislative Council.
A Government minute commenting on the action Government proposes to take in respect to 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.

Note:

* The original codicil was laid on the table of the Legislative Council on 28 October 1987.

** The Paper "Scope of Government Audit in Hong Kong - 'Value for Money' Studies" was laid on the table of the Legislative Council on 19 November 1986. The Director of Audit's Value for Money Studies have since been retitled as "Value for Money Audits", but they are referred to as "Value for Money Studies" in this document for consistency with the wording of the original paper.


Hansard of the Hong Kong Legislative Council, Hong Kong: Government Printer, 1976, 1977
Jenney, Brian G. OBE, The Role of the Public Sector Auditor, Speech to Rotary Club of Peninsula at Omni Hong Kong Hotel, 3 August 1993.


