

LCQ2: Monitoring of public organisations

Following is a question by Dr the Hon Kennedy Wong and a reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (February 19):

Question:

There are views pointing out that the Reports of the Director of Audit (the Reports) in recent years have revealed the governance problems of quite a number of public organisations, and this has aroused concerns about the Government's ability to monitor public organisations. In this connection, will the Government inform this Council:

- (1) as it has been reported that, to the Director of Audit's surprise, the arrangements concerning claims for allowances as put in place by some organisations receiving subventions from government funds are contrary to government guidelines, whether the authorities will review how to enhance the monitoring of such organisations, so as to comply with the guidelines on the governance of public organisations in respect of a key element therein relating to robust internal control as well as reporting and monitoring mechanisms;
- (2) as it has been reported that the Audit Commission will place more emphasis on conducting audits on public organisations, funds and social welfare organisations in the future, of the details of the specific work plan; whether the organisations concerned include statutory bodies such as the Hong Kong Trade Development Council, which receive relatively substantial government subventions; and
- (3) of the number of public organisations which needed to improve their governance in the light of the recommendations made in the Reports in the past five years, and whether it has looked into the average time taken by such organisations to implement the relevant improvement measures; whether it will step up efforts in monitoring the progress of the relevant work of public organisations; if so, of the details; if not, the reasons for that?

Reply:

President,

Thank you Dr the Hon Kennedy Wong for the question, offering me a chance to talk about the monitoring of public organisations. The Government attaches great importance to good corporate governance of public organisations and monitors these organisations under a multi-pronged approach. Enhancing corporate governance of public organisations not only uplifts their overall efficiency and cost effectiveness, but also plays an integral role in facilitating effective implementation of the organisations' policies and work

objectives. Generally speaking, while respecting the need for public organisations to maintain flexibility in operation and its independence, the Government considers the objectives of setting up the organisations and the powers conferred on them, and formulates regulatory mechanisms for these organisations as appropriate and necessary. Detailed arrangements are mapped out by the relevant bureaux.

In consultation with the Administration Wing and the Audit Commission (AUD), our reply to Dr the Hon Kennedy Wong's question is as follows:

(1) Public organisations should devise a proper governance framework, having regard to the size of the public organisations, the nature of their work and relevant Ordinances. The relevant bureaux should also ensure that a good governance framework is in place in the organisations under their purview. Such arrangements generally consist of the following elements:

- (i) To set clear work objectives;
- (ii) To make a clear delineation of roles and responsibilities between the Government, the governing body and the senior management of the public organisation; and
- (iii) To put in place robust internal monitoring and reporting systems.

Bureaux also appoint appropriate personnel (e.g. those with relevant experience and professional knowledge) to the governing bodies of the public organisations, with a view to monitoring the organisations in an effective manner.

In terms of financial control, subvented organisations are required to prepare a budget annually and submit audited financial accounts to the Government. Where necessary, the Government may include the relevant organisations into the scope of audit by the AUD having regard to the actual circumstances. The subvented organisations should also develop comprehensive understanding of the relevant guidelines pertaining to the management and control of government funding, put in place an appropriate system of cost control and monitoring, and abide by the principle of financial prudence with a view to ensuring proper use of public money and cost-effectiveness. The relevant bureaux will also formulate appropriate monitoring measures, such as drawing up service level agreements and setting out consequences of non-compliance with the responsibilities therein, to maintain effective supervision. This will be done having regard to the organisations' individual targets, nature and circumstances.

Where the Director of Audit (the Director) selects individual public organisations for conducting Value for Money (VFM) audits, the respective bureaux/Controlling Officers (COs) should give their full co-operation and supervise the public organisations under their purview in implementing the audit recommendations conscientiously. They should also review how to strengthen monitoring of the relevant organisations in accordance with the elements of robust internal control and reporting/monitoring systems as set out in the guidelines on governance of public organisations.

In a nutshell, the Government has strived to enhance the governance of public organisations on various fronts. Bureaux will conduct reviews on the governance of public organisations under their purview from time to time to ensure their effective operation and good governance.

(2) The AUD conducts VFM audits on a wide range of subjects, with a view to ensuring proper use of public money. In addition to bureaux and departments, the AUD may conduct audits on various bodies such as public organisations, funds and social welfare organisations, having regard to the following circumstances:

- (i) The body receives more than half of its income from public money;
- (ii) The Director is empowered under an Ordinance to audit the accounts of the body and there are currently 23 such bodies. The Director reviews and conducts audits on the economy and efficiency with which these bodies have used their resources in performing their functions and exercising their powers;
- (iii) The Chief Executive authorises the Director to audit the accounts and records of the body in the public interest; or
- (iv) By virtue of an agreement made between the Government and the individual body, the Director is empowered to audit the body's accounts and records. Examples include social welfare organisations funded under the Lump Sum Grant Subvention System.

As the Hong Kong Trade Development Council does not meet the above criteria, it does not fall into the Director's scope of audit.

In selecting VFM audit projects and according priorities, the Director takes into account a number of factors, including the materiality of projects, their timeliness, the public money and risks involved, and the benefits to be brought about. Until the reports are tabled in the Legislative Council (LegCo), the issues under the AUD's investigation are confidential. Therefore, we cannot disclose the specific work plans.

(3) Among the 10 reports which the Director prepared from 2020 to 2024, 12 chapters involved audit recommendations for 12 public organisations to improve their governance. Of these public organisations, six have fully implemented the recommendations made by the AUD and the Public Accounts Committee (PAC) of LegCo. On average, it takes about 1.5 years for the said organisations to implement all the recommendations.

The Government makes regular reports to the LegCo implementation progress of various recommendations in the form of Government Minutes and Annual Progress Reports. In addition to efforts by the relevant bureaux/C0s in monitoring their public organisations in implementing audit recommendations seriously and expeditiously, the AUD would also discuss with the PAC the progress of audited organisations (including public organisations) in implementing the recommendations.

Thank you, President.