

Your Ref.: CB(3)/PAC/R51

Our Ref.: CY/PH/LTR090109

9 January 2009

Ms. Miranda HON
Clerk
Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road, Central
Hong Kong

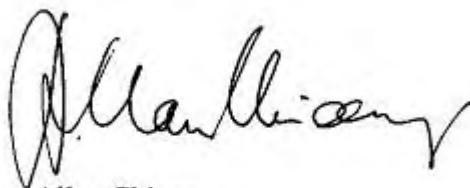
Dear Ms. HON,

**The Director of Audit's Report on the results of value for money audits ("Report No. 51")
Administration of the DesignSmart Initiative (Chapter 2)**

Thank you for your letter of 23 December 2008 on the captioned subject.

Attached please find our reply to your request for additional information.

Yours sincerely,



Allan Chiang
Chief Executive Officer
Hong Kong Design Centre

c.c.: Secretary for Commerce and Economic Development (fax no. 2588 1421)
Commissioner for Innovation and Technology (fax no. 2730 1771)
Secretary for Financial Services and the Treasury (fax no. 2147 5239)
Director of Audit (fax no. 2583 9063)

List of PAC's Follow-up Questions & HKDC Responses

Question	Response
(a) regarding the audit recommendation in paragraph 4.13(f) of the Audit Report that the Hong Kong Design Centre ("HKDC") should consider adopting the two-tier reporting system for managing potential conflicts of interest of its Board directors, please inform the Committee of the Board's decision on the matter as soon as possible;	The Board has decided at its meeting on 24 December 2008 to adopt the two-tier reporting system for managing potential conflict of interests of its Board directors.
(b) apart from the measures set out in paragraph 4.16(a) of the Audit Report, the other specific measures taken/to be taken by the HKDC to improve the attendance of its directors at Board/Committee meetings;	Apart from the measures set out in paragraph 4.16(a) of the Audit Report, other specific measures taken/to be taken to improve the attendance of directors at Board/Committee meetings include:- (i) choosing a meeting venue that suits better the convenience of the majority of the directors; (ii) sending reminders to the directors before the Board/Committee meetings; (iii) exploring the use of tele-conferencing facilities to secure the participation of directors who could not be present at the meetings.
(c) the specific measures taken/to be taken by the HKDC to ensure that the quorum requirement will be met at all meetings in future (paragraph 4.16(b) of the Audit Report refers);	To ensure that the quorum requirement will be met at all meetings in future, we will confirm the number of directors available to attend the meetings two days in advance of the respective meetings.
(d) among the projects funded by the HKDC since 2001, the number of projects in which a Board member was also a member of the project team, or office bearer or staff of the applicant organisation concerned, regardless of whether or not the Board member concerned had declared such interest;	According to our available records since 2001, there were a total of 3 projects funded and managed by HKDC where a Board member was also a beneficiary, regardless of whether or not the Board member concerned had declared such interest.

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<p>(e) it was mentioned at the hearing that the three major sources of the HKDC's funding were government funding, project income and other sponsorships. Please provide the respective amounts and percentages of funding from these three sources over the total funding received by the HKDC in each year since its establishment in 2001;</p>	<p>The split of HKDC's funding between government funding, project income and sponsorship is as follows:-</p> <table border="1" data-bbox="1176 304 2101 746"> <thead> <tr> <th></th> <th>Government Funding (%) HK\$ '000</th> <th>Project Income (%) HK\$ '000</th> <th>Donation, Sponsorship & Others (%) HK\$ '000</th> </tr> </thead> <tbody> <tr> <td>2001 - 02</td> <td>4,058 52%</td> <td>3,715 48%</td> <td>23 0%</td> </tr> <tr> <td>2002 - 03</td> <td>6,390 94%</td> <td>12 0%</td> <td>429 6%</td> </tr> <tr> <td>2003 - 04</td> <td>10,448 83%</td> <td>905 7%</td> <td>1,278 10%</td> </tr> <tr> <td>2004 - 05</td> <td>20,994 78%</td> <td>5,193 19%</td> <td>876 3%</td> </tr> <tr> <td>2005 - 06</td> <td>12,076 54%</td> <td>6,536 29%</td> <td>3,560 16%</td> </tr> <tr> <td>2006 - 07</td> <td>22,124 68%</td> <td>7,543 23%</td> <td>2,768 9%</td> </tr> <tr> <td>2007 - 08</td> <td>34,131 72%</td> <td>12,425 26%</td> <td>814 2%</td> </tr> </tbody> </table>		Government Funding (%) HK\$ '000	Project Income (%) HK\$ '000	Donation, Sponsorship & Others (%) HK\$ '000	2001 - 02	4,058 52%	3,715 48%	23 0%	2002 - 03	6,390 94%	12 0%	429 6%	2003 - 04	10,448 83%	905 7%	1,278 10%	2004 - 05	20,994 78%	5,193 19%	876 3%	2005 - 06	12,076 54%	6,536 29%	3,560 16%	2006 - 07	22,124 68%	7,543 23%	2,768 9%	2007 - 08	34,131 72%	12,425 26%	814 2%
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<p>(f) regarding the audit observations in paragraphs 2.35 to 2.39 of the Audit Report concerning meeting the travel expenses of brands and designers against the DesignSmart Initiative Assessment Panel's advice, apart from seeking the Finance and Administration Committee's approval by circulation of papers, whether the Board's approval had eventually been obtained; if so, when and how the Board's approval was obtained; if not, the reasons for that;</p>	<p>The Board's retrospective approval for paying the travel expenses of the brands' representatives and designers from the auction proceeds was obtained at the Board meeting on 22 September 2008 when the draft Audit Report was discussed.</p>																																
<p>(g) an elaboration of the results and effectiveness of the Business of Design Week;</p> <p>(h) it was stated in paragraph 2.63(a) of the Audit Report that the HKDC would review the existing financial arrangements for the Business of Design Week and develop a long-term financial plan. What the progress of the review is and when a long-term financial plan will be developed; and</p>	<p>As BODW is now in its seventh year we have decided to take stock and an external consultant has been appointed to review the positioning and strategy of the BODW. This will include an elaboration of the results and effectiveness of the event, and provide recommendations on developing a long-term financial plan. We aim to finalise the report in January 2009 and reach a conclusion at the Board meeting on 4 February 2009. We will submit copies of the report immediately thereafter to PAC.</p>																																

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<p>(i) an elaboration of the reasons for understating the unspent balance of the funding provided under the InnoCentre Programme by about \$4.5 million in July 2007 (paragraphs 3.24 to 3.28 of the Audit Report refer); and given that any unspent amount would be deducted from the funding to be allocated by the Administration to the HKDC under the InnoCentre Programme for the following period, whether the understatement of \$4.5 million might lead to over-provision of funding to the HKDC.</p>	<p>As noted in paragraphs 3.25-3.26 of the Audit Report, the amount of \$2.5 million HKDC reported to ITC in July 2007 (subsequently adjusted to \$2 million in December 2007) represents the unspent balance for the three-month period from 1 April to 30 June 2007. HKDC did report the cumulative unspent balance of \$6.5 million under the InnoCentre Programme through submission of the audited accounts to ITC in December 2007. As HKDC accounts are audited by professional accountants, we do not see the possibility of HKDC benefitting from over-provision of funds from ITC.</p>