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2 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 dated 23 December 2008 requesting additional information concerning the unspent balance of funding provided to the Hong Kong Design Centre (HKDC) under the InnoCentre Programme. The Committee has asked in the letter whether the understatement of \$4.5 million of the unspent balance might lead to an over-provision of funding to the HKDC.

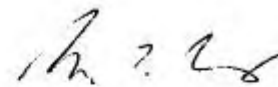
The Committee may wish to note that the Audit Commission (Audit) informed the Innovation and Technology Commission (ITC) of the understatement of unspent balance in May 2008. In September 2008, the ITC informed Audit that:

- (a) owing to heavy work commitment around March 2008 and in trying to meet the payment deadline at close of financial year, the third quarterly disbursement was made to the HKDC without further updating the unspent balance according to the audited accounts. After confirmation with the HKDC, the updating and offsetting was made when considering the fourth disbursement in June 2008. The updating and offsetting was thus delayed by a quarter (see para. 3.28(b)); and

- (b) the ITC agreed that it was more proper to confirm the unspent balance with the HKDC and carry out updating and offsetting in the first practical opportunity (see para. 3.28(c)).

As the understatement of unspent balance was subsequently rectified in June 2008, it did not lead to an over-provision of funding to the HKDC. Nonetheless, Audit considers that the ITC should ensure that the unspent balance is properly reported by recipients of DesignSmart Initiative funding (see para. 3.29).

Yours sincerely,



(David M T LEUNG)
for Director of Audit

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