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27 January 2004

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. 41)**

**Chapter 6: Buildings Department's efforts
to tackle the unauthorised building works problem**

Thank you for your letter dated 15 January 2004 seeking Audit's views on whether the idea of further outsourcing the supervisory work involved in blitz operations is worth pursuing.

Audit's views

Audit considers that outsourcing the supervisory work is in principle worth pursuing. In the light of the audit findings and the Director of Buildings' remarks at the public hearing and his reply dated 2 January 2004, it would appear that:

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- (a) the Buildings Department can reduce its supervision costs by implementing the audit recommendations mentioned in paragraphs 5.16(c), (d) and (e) of the Audit Report. The Director of Buildings has acknowledged this point and is taking action to implement the recommendations (please see page 27 of verbatim report, lines 7 to 10, copy attached);
 - (b) administratively, outsourcing the supervisory work will create another layer of contractors between the Buildings Department and the blitz contractors. Contract administration work of the Buildings Department will likely increase in terms of both volume and complexity; and

- (c) at present, certain statutory duties and powers (e.g. the issuing of statutory orders) cannot be exercised by the blitz contractors. Until legislative amendments are enacted (as indicated in the Director of Buildings' letter dated 2 January 2004), the statutory duties and powers will have to be excluded from the scope of any outsourced supervisory work.

Generally speaking, outsourcing has been widely used by public organizations to enhance cost-effectiveness. On the other hand, outsourcing the supervisory work involved in blitz operations is a fairly complicated issue that requires a thorough feasibility study and a policy change before implementation.

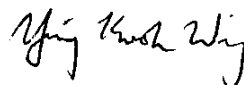
Proposed PAC action

The Buildings Department needs to implement the audit recommendations to achieve the intended cost reduction. The PAC may wish to urge the Director of Buildings to:

- (a) closely monitor the implementation of the audit recommendations mentioned in paragraphs 5.16 (c), (d) and (e) of the Audit Report;
- (b) evaluate and inform the PAC of the outcome as soon as possible; and
- (c) pursue other options (including outsourcing the supervisory work) if the evaluation indicates that the measures now being implemented fail to achieve the desired effects.

A Chinese translation letter will be forwarded to you shortly.

Yours sincerely,



(YING Kwok-wing)
for Director of Audit

***Note by Clerk, PAC:**

Page 27 of verbatim report not attached.