



審計署
香港灣仔
告士打道七號
入境事務大樓
二十六樓

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

圖文傳真 Facsimile : 2583 9063

電話 Telephone : 2829 4219

本署檔號 Our Ref. : UB/PAC/VFM/42-2

來函檔號 Your Ref. : CB(3)/PAC/R42

22 May 2004

Clerk, Public Accounts Committee
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road, Central
Hong Kong
(Attn: Ms Dora Wai)

Dear Ms Wai,

**The Director of Audit's Report on the
results of value for money audits (Report No. 42)**

Chapter 3: Harbour Area Treatment Scheme (HATS) Stage I

Thank you for your letter of 17 May 2004 inviting my comments on the additional information provided by the Secretary for Financial Services and the Treasury in his letter of 15 May 2004.

As mentioned by the Secretary in the third paragraph of his letter, the administrative cap arrangement was introduced to prevent internal resources allocated to Category A projects from being locked up unnecessarily. With the administrative cap arrangement in place, the works departments have to apply to the Financial Services and the Treasury Bureau for the lifting of the administrative cap to cover any subsequent increase in forecast expenditure. According to the Secretary, the administrative cap arrangement has been duly observed by works departments since its introduction in May 2002.

The administrative cap arrangement is not introduced to replace the mechanism for reducing the Approved Project Estimate (APE), which is a means to enhance financial accountability to the Finance Committee over the approved funding of works projects. Under the mechanism for reducing the APE, when the APE of a works project is reduced, a subsequent request for additional funding in excess of \$15 million over the reduced APE is required to be submitted to the Finance Committee for approval. Currently, both the administrative cap arrangement and the mechanism for reducing the

APE are in force. These two measures, if properly implemented, would enhance the control and use of funding under the APE.

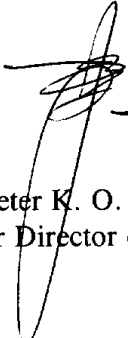
In the sixth paragraph of his letter, the Secretary has mentioned the simplified procedure announced by the then Finance Branch in 1993 and DSD Technical Circular No. 5/93. In Audit's view, the March 1996 information paper mentioned in paragraph 4.43 of the Audit Report also provided useful information on the guidelines. In this information paper, the Administration informed the Finance Committee that:

“Where the tender sum is below the estimate approved by the Finance Committee, we will consider reducing the approved project estimate to reflect the lower forecast outturn price.”

Audit was aware that these guidelines allow the relevant project controller to exercise judgement as to whether the APE could be reduced. In paragraph 4.46 of the Audit Report, Audit did not conclude that the DSD had breached the guidelines. Audit only noted that, despite the guidelines, the DSD did not reduce the APEs of the tunnel completion contracts even though the accepted tender prices were much lower than the estimated contract sums included in the APEs. However, Audit could not find any documentation of the reasons for the DSD not to do so. Therefore, Audit has recommended in paragraph 4.51(b) of the Audit Report that the Director of Drainage Services should take action to reduce the APE of a project when the tender price is significantly lower than the estimated contract sum in the APE, and document the reasons where a reduction in the APE is considered not warranted.

A Chinese translation of this letter will be forwarded to you shortly.

Yours sincerely,



(Peter K. O. Wong)
for Director of Audit

c.c. Secretary for Financial Services and the Treasury (Attn: Miss Amy Tse)
Secretary for the Environment, Transport and Works
Director of Drainage Services