

## **A. Introduction**

The Audit Commission ("Audit") conducted a review on the Leisure and Cultural Services Department ("LCSD")'s administration of subvention to the National Sports Associations ("NSAs") under the Sports Subvention Scheme ("the Scheme"). The review focused on the following areas:

- allocation of subvention;
- monitoring of NSAs' performance; and
- internal controls of NSAs.

2. **Mrs Betty FUNG CHING Suk-ye**, Director of Leisure and Cultural Services, made an opening statement at the Committee's public hearing on 14 December 2009. The full text of her statement is in *Appendix 9*.

## **B. Allocation of subvention**

3. According to paragraph 2.2 of the Director of Audit's Report ("Audit Report"), from July to September each year, the LCSD invited the NSAs to submit applications for subvention for the coming financial year. The Committee enquired:

- whether all NSAs were invited each year and about the criteria for determining the NSAs to be invited; and
- whether sports organisations not invited by the LCSD could also apply for subvention under the Scheme and, if they could, the number of such organisations which had successfully obtained subvention since the LCSD took over the funding responsibility from the former Hong Kong Sports Development Board ("HKSDB") in April 2004.

4. The **Director of Leisure and Cultural Services** said at the public hearing and in her letter of 11 December 2009 (in *Appendix 10*) that:

- each year, the LCSD invited all the NSAs under the Scheme to submit applications for subvention for the coming financial year under 10 categories of programmes. New NSAs accepted for subvention under the Scheme would also be invited to submit applications. The number of NSAs subvented under the Scheme increased from 57 in 2004-2005 to 58 in 2007-2008;

- to be eligible for applying for block grant subvention, an NSA had to fulfil the following six criteria:
  - (a) be recognised by the Sports Federation and Olympic Committee of Hong Kong, China ("SF&OC") as the sole official representative for the sports in international events;
  - (b) be a non-profit-making organisation;
  - (c) be registered under the Societies Ordinance or Companies Ordinance with a proper constitution;
  - (d) be in operation and had organised sports programmes for at least three years;
  - (e) be affiliated to the international federation of the respective sports concerned; and
  - (f) be of a sport which was one of the potential major games sports;
- if a sports organisation was not a member of the SF&OC but met the other five criteria, it could still apply for subvention on a project basis; and
- organisations previously not under subvention could also submit their applications to the LCSD, which would assess their applications against the above criteria. For example, the Hong Kong Dancesport Association Limited had made application to the LCSD and obtained subvention.

5. At the request of the Committee, the **Director of Leisure and Cultural Services** provided, vide her letter of 11 December 2009, the names of the 58 NSAs currently receiving recurrent subvention under the Scheme, and a breakdown of the subvention granted to each NSA by the LCSD from 2004-2005 to 2009-2010 (see Annexes A and B of *Appendix 10*).

6. Noting that the NSAs receiving recurrent subvention since 2004-2005 had almost remained unchanged, the Committee further asked:

- whether the LCSD had rejected any applications for subvention which were not invited by the LCSD; if it had, the name(s) of the sports organisation(s) and the reasons for rejecting the application(s); and
- whether the NSAs had the expectation that, once subvention had been granted to them, they would continue to receive subvention in the following year upon application.

7. The **Director of Leisure and Cultural Services** responded at the public hearing and in her letter of 31 December 2009 (in *Appendix II*) that:

- since the LCSD took over the role to provide subvention to the NSAs in 2004, the LCSD had received only one application for subvention which was not invited by the LCSD. The application was made by the Hong Kong Muay Thai Association ("HKMTA") in 2005 and was not approved as the legitimacy of its representation for the sport of Thai-boxing in Hong Kong had remained unresolved. This was because the Hong Kong Boxing Association ("HKBA"), a member of the SF&OC, had all along been receiving subvention from the former HKSDDB for the development of boxing in Hong Kong. While the HKBA claimed that it was the local authority for developing other disciplines of ring competitions including Thai-boxing, the HKMTA, which had become a member of the SF&OC since November 2004, also claimed that it was the authority for developing Muay-thai (Thai-boxing) in Hong Kong. At the international level, the HKBA and the HKMTA were recognised separately by two different international sports federations to develop the sport in Hong Kong;
- as the legitimate representation for Muay-thai (Thai boxing) in Hong Kong had not yet been resolved, the LCSD was unable to approve the HKMTA's application for subvention under the Scheme. Nevertheless, the LCSD would continue to discuss with the SF&OC with a view to resolving the matter; and
- the LCSD would consider all NSAs' applications for subvention every year, unless there was a serious breach of subvention agreement that justified the suspension of subvention.

8. According to paragraph 2.10 of the Audit Report, an NSA was required to set performance targets on four suggested key result areas in the annual plan of an application for subvention. However, in relation to the 2008-2009 annual plans submitted by the six NSAs reviewed by the Audit Commission ("Audit"), one NSA did not set any performance targets at all and 73% of the performance targets set by the other five NSAs were qualitative in nature. Also, only one of the six NSAs set a performance target on submission of reports and financial statements for the key result area "Management". The Committee asked:

- whether the above problems were attributable to there being inadequate correlation between the determination of the amounts of subvention to the NSAs and the NSAs' performance; and

- about the measures that would be taken by the LCSD to remind the NSAs to set performance targets and encourage them to set more quantitative performance targets, so as to facilitate the LCSD to measure the NSAs' performance.

9. The **Director of Leisure and Cultural Services** said that:

- the LCSD had all along requested the NSAs to set quantitative performance targets in the annual plans of their subvention applications, such as the number of programmes organised, number of participants, and number of medals obtained. However, the current guidelines might not be clear enough for the NSAs, and the LCSD had not strictly enforced the requirement of setting performance targets. Subvention was still granted to an NSA even if it had not submitted the relevant reports or financial statements to the LCSD; and
- the LCSD agreed with Audit that setting performance targets on the aspect of "Management", such as the submission of reports and financial statements, was particularly relevant and important. The LCSD also considered it most important to put the audit recommendations into implementation. Hence, a working group, to be monitored by herself, would be set up to review how the sports subvention system could be improved, including the setting and assessment of performance targets, and the relationship between the performance targets and the subvention level.

10. Noting the response of the Director of Leisure and Cultural Services, the Committee further enquired:

- how the allocation of subvention to an NSA could be better linked to its performance under the LCSD's proposed review; and
- about the directions and key areas of work of the said working group.

11. The **Director of Leisure and Cultural Services** said at the public hearing and in her letter of 31 December 2009 that:

- at present, the achievement of the performance targets set by an NSA for the preceding financial year was one of the factors considered by the LCSD in determining the subvention level for the NSA in the following year. In the proposed review, the LCSD would actively explore how the NSAs could be encouraged to set more objective/quantitative performance targets and how their achievement of targets could be better linked with the next subvention allocation. In addition, consideration would be given to the introduction of a

system to reward/penalise the over/under achievement of performance targets by the NSAs. For example, if an NSA failed to meet a target, the LCSD might reduce the amount of subvention to be granted or suspend the payment of subvention until the target was met. The LCSD would work out the details in consultation with the NSAs;

- the LCSD would set up a working group in January 2010 to conduct a comprehensive review of the Scheme. The objectives of the review included:
  - (a) improving the overall effectiveness and efficiency of the Scheme;
  - (b) streamlining and rationalising the monitoring system having regard to relevant best practices;
  - (c) enhancing the internal control of the NSAs and their accountability;
  - (d) enhancing the NSAs' compliance with the guidelines promulgated for the Scheme; and
  - (e) strengthening the LCSD's monitoring role and capability under the Scheme;
- in conducting the review, the working group would seek to strike a balance between strengthening control of the use of public funds on the one hand, and maintaining reasonable flexibility for the NSAs in the planning and execution of activities on the other; and
- the key areas of the review were set out in Annex A of *Appendix 11*. The LCSD hoped to draw up preliminary proposals by June 2010, after consultation with the NSAs, and would report the progress and outcome of the review as appropriate to the Committee.

12. Paragraphs 2.12 and 2.13 of the Audit Report stated that there were two different approaches in determining the subvention for different categories of sports programmes, but from the LCSD records, it was unclear why different approaches were used. The Committee enquired about the rationale for adopting two different approaches and the progress made by the LCSD in reviewing the appropriateness of these approaches, as mentioned in paragraph 2.17(b) of the Audit Report.

13. The **Director of Leisure and Cultural Services** replied in her letter of 11 December 2009 that:

- the current subvention regime, including the methodology for determining the subvention, was largely inherited from the HKSDB and continued to be adopted by the LCSD after it took over the Scheme in 2004;
- the first approach, whereby the subvention was determined by netting off the estimated income from the estimated expenditure, applied to the four categories of development programmes, namely, development schemes, School Sports Programmes, local competitions and Community Sports Club Projects organised by the NSAs. As the NSAs usually received relatively steady income (e.g. enrolment fees) from these development programmes, the LCSD adopted the method of deducting the estimated income from the estimated eligible expenditure before calculating the subvention. Moreover, the subvention was subject to a ceiling calculated by applying the maximum subvention percentage to the estimated eligible expenditure. For example, if the estimated eligible expenditure of a development programme was \$1,000 and the estimated income was \$200, the LCSD would provide a maximum subvention of \$800 (\$1,000-\$200). However, if the estimated income was only \$100, the LCSD would provide a maximum subvention of \$850 instead of \$900 (\$1,000-\$100), since the relevant maximum subvention percentage for this category of programmes was 85%;
- the second approach, whereby the subvention was determined by applying the maximum subvention percentage to the estimated eligible expenditure, applied to the other six categories of programmes, namely, international events held outside Hong Kong, local international competitions, national/junior squad training programmes, regional squad training programmes, training of officials, and meetings/conferences. As these programmes were mainly competitions, meetings and training of the NSA officials which might not generate income, the subvention for these categories of programmes was calculated by applying the relevant maximum subvention percentage to the estimated eligible expenditure directly. For example, if the estimated eligible expenditure of an international competition held outside Hong Kong was \$1,000, the LCSD would provide a maximum subvention of \$850 since the relevant maximum subvention percentage was 85%; and
- the LCSD would review the two different approaches as part of its comprehensive review to be conducted in early 2010 for the current sports subvention system.

14. The Committee also noted from paragraph 2.11 of the Audit Report that according to the LCSD operational guidelines, there was a maximum subvention percentage for each category of sports programme. The Committee asked how the respective maximum subvention percentages were determined.

15. The **Director of Leisure and Cultural Services** stated in her letter of 11 December 2009 that:

- the maximum subvention percentages were set by the former HKSDB and continued to be adopted by LCSD since it took over the Scheme. Details of the maximum subvention percentage for each category of sports programme were set out in Annex C of *Appendix 10*; and
- different maximum subvention percentages were adopted having regard to the level of income that might be generated from individual programmes, the nature of programme, the affordability of the participants, and the relative importance of these programmes in promoting the development of the sports concerned. For example, a higher maximum subvention percentage (85% or above) was set for international competitions held outside Hong Kong, national/junior/regional squad training and School Sports Programmes, whereas a lower percentage (say 50%) was set for Community Sports Club Projects, such as Fun Day and sport training programmes for adults.

16. The Committee referred to Cases 2 and 3 mentioned in paragraph 2.14 of the Audit Report and queried why, contrary to the requirements in the LCSD operational guidelines, the LCSD had not assessed the reasonableness of the 2008-2009 budgets of two sports programmes having regard to the preceding year's actual expenditure/income information.

17. The **Director of Leisure and Cultural Services** explained that:

- for Case 2, when the LCSD vetted the budget of the 2008-2009 regional squad training programme organised by NSA3, the 2006-2007 actual expenditure information was not available due to the NSA's late submission of annual accounts. Hence, the LCSD granted subvention to NSA3 based on an estimated travel allowance of \$216,000 (calculated by the number of athletes x number of sessions x the amount of allowance per athlete per session);
- the LCSD subsequently found out from the 2006-2007 accounts that the actual expenditure on travel allowance was only \$9,800 instead of the original estimate of \$27,500. Upon enquiry with NSA3 on the discrepancy, the LCSD was informed that since NSA3 had required the athletes concerned to attend 100% of the training before they were entitled to the travel allowance, those not meeting this requirement were not granted any travel allowance; and

- the LCSD agreed that if the preceding year's information as shown in the annual accounts was available when the LCSD vetted the budget, the LCSD would have a better basis to assess the estimated expenditure more accurately. The LCSD would urge the NSAs to submit annual accounts timely.

18. To ascertain whether the public funds used for promoting the development of sports in Hong Kong were well spent, the Committee asked:

- how the LCSD, in discharging its responsibility for managing the grant of subvention to the NSAs, could meet the Government's three objectives on sports development, as set out in paragraph 1.2 of the Audit Report; and
- whether the performance of Hong Kong athletes at the international level had improved as a result of the programmes organised by the NSAs under the Scheme.

19. The **Director of Leisure and Cultural Services** said at the public hearing and in her letter of 31 December 2009 that:

- the Government had been working in close partnership with the NSAs to promote the three objectives of sports development in Hong Kong, namely, to develop a strong sporting culture in the community; to help the elite athletes to achieve excellence; and to raise Hong Kong's profile as a centre for international sporting events. With the annual subvention granted under the Scheme, the NSAs organised a wide range of programmes to achieve the three objectives;
- for the first objective, the NSAs receiving government subvention organised promotional and development programmes throughout the year, including development schemes, School Sports Programmes, local competitions and Community Sports Club Projects with a view to encouraging people from all walks of life to participate in sports, thereby enhancing the physical fitness of Hong Kong people and fostering a strong sporting culture in the community;
- for the second objective, in order to train more young people with the potential to compete for Hong Kong in the international sports arena, the Scheme provided funding support for the NSAs to organise training programmes for elite athletes in the national, junior and regional squads, as well as for their participation in international competitions. The Scheme also provided the much needed funding support for the NSAs to enhance their feeder systems in order to identify and nurture the young and upcoming athletes to join the elite teams. The feeder system had proved to be successful as evidenced by the good results achieved by the athletes in many international sports events in recent years. The subvention granted for the

organisation of training programmes for the NSA officials/referees and their attendance at international meetings/conferences kept them abreast of the updated rules and regulations for international competitions, which was essential for the development of sports in Hong Kong;

- in supporting the NSAs to host local international events such as the FINA Marathon Swimming World Cup-Hong Kong and the Tours of South China Sea (Cycling), the Scheme also helped achieve the third objective by raising Hong Kong's status as a major sports events capital;
- it was estimated that in 2009-2010, a total of over \$500 million of funding was provided by the Government to the Home Affairs Bureau, the Hong Kong Sports Institute and the Arts and Sport Development Fund for supporting sports development in Hong Kong. Of this funding, the LCSD received about \$179 million mainly for the purpose of promoting the popularity of sports activities and encouraging mass participation. Therefore, apart from conducting squad training programmes and participating in competitions, a substantial amount of subvention was used for promoting school sports and community sports, such as football and basketball training and competitions for the youth. Training for elite athletes was mainly provided by the Hong Kong Sports Institute, which received a subvention of about \$169 million in 2009-2010; and
- the returns to investment in sports development could not be easily quantified. However, it was noticeable that some sports activities had become more popular among the public in recent years, and a great progress was made for some sports at the international level.

### **C. Monitoring of NSAs' performance**

20. The Committee noted from paragraph 3.2 of the Audit Report that the LCSD had put in place a mechanism for monitoring the NSAs' performance under the Scheme. However, as revealed in paragraphs 3.3 to 3.24 of the Audit Report, there were a number of inadequacies in the monitoring work, including late submission of reports and financial statements by the NSAs, long time taken to process the annual accounts submitted by the NSAs, inadequacies and non-compliance in reporting, and various problems relating to the follow-up actions taken by the LCSD. The Committee asked:

- whether the LCSD had taken any actions to improve the monitoring mechanism since taking over the work from the HKSDB in 2004;
- why the LCSD was ineffective and lax in monitoring the NSAs' performance; and

- about the measures that would be adopted by the LCSD to rectify the problems and irregularities.

21. The **Director of Leisure and Cultural Services** said that:

- since the LCSD had taken over the work from the HKSDB, it had not reviewed the subvention model or made any major changes to the Scheme. As any changes would affect the 58 NSAs receiving recurrent subvention and the 26 sports organisations receiving subvention on a project basis, it would take quite a long time to discuss with the organisations if major changes were proposed. However, the LCSD did make some improvements to the mechanism. For example, it had introduced a subvention agreement to be signed with each NSA every year to formalise the funding relationship with the NSAs. The NSAs were required to draw up their code of conduct, procurement guidelines and guidelines on management of conflict of interests;
- the LCSD admitted and accepted that there were shortcomings in the LCSD's monitoring of the performance of the NSAs. In respect of the problems and inadequacies identified by Audit, the LCSD should have followed up the relevant cases more closely and be more cautious;
- some NSAs could not submit the relevant reports on time because they were busy preparing for competitions or large-scale events. In those circumstances, the LCSD exercised discretion to allow the NSAs more time for submitting the reports;
- it also took time for the LCSD to seek clarifications or urge the NSAs to submit the required information in the relevant reports, especially for the annual audited accounts. If the NSAs could submit the annual accounts to the LCSD within six months after the end of a financial year, the LCSD would aim to complete the processing of the accounts within six months. This timeframe was considered reasonable and necessary, as the LCSD would need to determine the amount of subvention for the following year having regard to the information in the audited accounts;
- the LCSD would use different means to urge the NSAs to submit the reports on time, and would consider using a computerised system to facilitate the issuance of reminders to the NSAs to follow up overdue reports. For repeated cases of late submission, the LCSD would consider withholding subvention to the NSAs. The LCSD would add a new clause to the subvention agreement for 2010-2011 to the effect that it could impose the sanction of withdrawal of subvention for an NSA if necessary; and

- in the past five years, the LCSD staff had been busy with the administration of the Scheme with little time left for reviewing the workflow as a whole. There was certainly room for streamlining and rationalising the monitoring mechanism with a view to reducing the administrative burden on both the LCSD and the NSAs. With experience accumulated in subvention allocation and performance monitoring, the LCSD staff had also identified possible areas for improvement. Therefore, the LCSD considered it timely to commence a comprehensive review of the subvention system.

22. According to paragraph 3.22 of the Audit Report, the LCSD allocated a lump sum subvention for certain categories of sports programmes. The Committee enquired about the criteria for determining the categories which would be allocated a lump sum subvention.

23. In response, the **Director of Leisure and Cultural Services** stated in her letter of 11 December 2009 that:

- the LCSD provided a lump sum subvention to each of the following five categories of programmes, namely, international events held outside Hong Kong, national/junior squad training programmes, regional squad training programmes, training of officials and meetings/conferences;
- to enable the athletes to sharpen their skills through competing with top overseas/Mainland athletes and to attain higher international rankings, the NSAs arranged athletes to participate in various overseas/international competitions. Prior to the competitions, the NSAs might arrange tailor-made overseas squad training programmes to prepare their athletes for the competitions and enhance their performance. In addition, it was also common practice for organisers of international competitions to arrange meetings/conferences and training/seminars for key NSA officials during the competition period;
- as the actual participation in international competitions depended on, among other things, the performance, readiness and training strategy of the athletes, there were often frequent changes in the competitions the NSAs would attend during the year. Given the uncertainty, it would be difficult for the NSAs to come up with the exact funding required for taking part in international competitions held outside Hong Kong almost one year in advance when they submitted the annual plan, and for the LCSD to calculate the amounts of subvention to be given to the NSAs for individual competitions, squad training and training of officials. By adopting the lump sum subvention approach, the NSAs would, on the one hand, have certainty over the funding they could use for participating in overseas competitions/training and, on the other, adjust their strategy for attending overseas competitions where

necessary, so as to attain the greatest benefits for the development of their sports and to enable the athletes to attain the best results in international competitions; and

- regarding the other five categories of programmes, namely, local international competitions, development schemes, School Sports Programmes, local competitions and Community Sports Club Projects, as the NSAs had better control over the organisation of such local programmes and the expenditure incurred, it was not necessary to adopt the lump sum subvention approach for such programmes. Hence, subvention was calculated on the basis of the estimated expenditure for individual programmes.

24. Paragraph 3.22 of the Audit Report also pointed out that an NSA could retain the unspent subvention of cancelled programmes as reserve fund. The Committee asked:

- about the circumstances under which an NSA was allowed to retain unspent subvention as reserve fund, and those under which an NSA was required to return the subvention to the LCSD; and
- whether the LCSD agreed with Audit's comment that the practice of allowing an NSA to retain the unspent subvention might not be conducive to encouraging an NSA to implement all programmes under the lump sum subvention.

25. The **Director of Leisure and Cultural Services** replied at the public hearing and in her letter of 31 December 2009 that:

- in signing the subvention agreement with individual NSAs, the LCSD would attach a list of the approved programmes to be organised by the NSAs under different categories during the year as reference. If the unspent allocation was resulted from the economy use of resources or successful solicitation of sponsorship for the individually approved programmes organised, the savings thus resulted could be deposited into the reserve fund held by the NSAs. However, if any of the individually approved programmes were cancelled, the amount of subvention specifically allocated to such programmes should be returned to the Government;
- for the five categories of programmes under the lump sum subvention, the total expenditure of the approved list of programmes often far exceeded the lump sum subvention allocated to the NSAs under these categories. Given the nature of these programmes for which certainty of staging/attending was not under the sole control of the NSAs, the LCSD had built in flexibility and given the NSAs some discretion to decide which international competitions/training their athletes would take part in, having regard to the

athletes' needs and their strategy to attain the best results/benefits for the development of their sports. Normally, the NSAs would exhaust the subvention allocated for these programmes. In case the NSAs would not be able to use up the subvention for these categories of programmes, they could retain the unspent amount;

- taking Case 2 in paragraph 2.14 of the Audit Report as an example, the LCSD noted that the NSA concerned had not incurred any expenditure on travel allowance to athletes in 2008-2009 as estimated, but intended to use the relevant subvention for other purposes. Under such circumstances, the NSA was not allowed to retain the surplus arising thereof, which would be netted off from the following quarterly instalment of the subvention to the NSA; and
- notwithstanding that a lump sum subvention was provided for the five categories of programmes, the LCSD still performed a vetting role to make sure that the individual items of expenditure met the eligibility criteria for subvention and were within the ceiling set for the relevant expenditure items. Furthermore, the use of reserve fund was subject to the prior approval of the LCSD. The LCSD would review the current arrangements for reserve fund in the review exercise.

26. Regarding on-site inspection of sports programmes, the Committee noted from Table 8 in paragraph 3.30 of the Audit Report that the LCSD conducted six inspections for 11 local competitions organised by NSA5 in the years 2007-2008 and 2008-2009, whereas fewer inspections were conducted for competitions organised by other NSAs. The Committee also noted from paragraph 3.29 of the Audit Report that there were no guidelines for inspecting subvented programmes held by the NSAs in the LCSD venues, despite that most of the programmes were held therein. The Committee asked:

- about the criteria for determining the programmes to be inspected;
- whether the LCSD would formulate guidelines for inspecting programmes held in the LCSD venues;
- whether on-site inspection was carried out by LCSD staff or persons in the sports field; and
- whether users/participants were requested to complete evaluation forms for the events/programmes organised by the NSAs.

27. The **Director of Leisure and Cultural Services** said that:

- the LCSD had adopted a risk-based approach in conducting inspection on non-LCSD venues. Priority would be accorded to the inspection of new or large-scale events, or recurrent events held in new venues. For the case of NSA5 in Table 8, since most of the local competitions were new events, inspection had been carried out more frequently. As for other regular programmes, such as badminton programmes held recurrently in the same venue, the LCSD would conduct inspections every two years;
- the LCSD would formulate guidelines for inspecting subvented programmes held by the NSAs in the LCSD venues using a risk-based approach; and
- on-site inspection was usually carried out by the LCSD staff (not necessarily staff of the Sports Funding Office) who were familiar with the venue or sport. When conducting inspection, the LCSD staff might interview the users or participants to obtain their feedback on the programmes organised. However, such interviews were not conducted in a scientific manner. The LCSD would consider conducting user surveys in future.

28. To ascertain whether shortage of manpower was one of the reasons leading to the inadequacies in monitoring the NSAs' performance, the Committee asked whether the LCSD had requested additional manpower resources for administering the Scheme since 2004, and whether the requests had been approved. The **Director of Leisure and Cultural Services** said at the public hearing and in her letter of 31 December 2009 that:

- when the LCSD took over the Scheme from the former HKSDB in 2004, the LCSD had redeployed existing manpower resources from within the Department to administer the Scheme. So far, the LCSD had endeavoured to meet the requirements through the resources available in the Department;
- at present, there were 17 staff in the Sports Funding Office who were responsible for handling various types of reports of about 10,000 sports programmes submitted by 58 NSAs. The workload was onerous, given that they had to vet and follow up all reports. Manpower shortage was one of the reasons for delays in processing reports and inadequacies in site inspection; and
- given the increase in the subvention amount, the number of programmes administered under the Scheme and the increasing complexity of the monitoring mechanism, the LCSD would review the manpower resources required for the proper and effective administration of the Scheme as part of the comprehensive review to be conducted. Subject to the result of the review, the LCSD might need to engage staff with accounting background or accountants to assist in the administration of the Scheme.

#### **D. Internal controls of NSAs**

29. The Committee noted that the subvention agreement stipulated that the NSAs had to exercise proper internal controls to ensure cost-effectiveness and accountability in the use of the subvention. However, the LCSD's arrangements for monitoring the NSAs' compliance with this requirement did not seem to be very effective, as internal control weaknesses and reporting errors were identified by both the LCSD's Quality Assurance Section and Audit (paragraphs 4.6, 4.14, 4.15, and 4.19 to 4.24 of the Audit Report referred). Paragraph 4.9(a) also revealed that the LCSD had not provided training to help the NSAs improve their internal controls for more than two years. The Committee asked:

- whether the NSAs had sufficient administrative staff or personnel with accounting knowledge to ensure proper internal controls, given that many NSA staff were volunteers or part-timers;
- whether the LCSD would provide more training to the NSAs to help them improve their internal controls; and
- whether the LCSD would make more use of information technology, such as exploring an appropriate accounting software, to facilitate the NSAs to manage their accounts and prepare financial statements for submission to the LCSD.

30. The **Director of Leisure and Cultural Services** said that:

- the LCSD had granted subvention to the NSAs to cover personnel expenses, and they could hire project executives to take up the administrative work;
- the LCSD planned to organise a workshop in early 2010 by inviting audit/accounting professionals to advise the NSAs on areas of improvement regarding internal controls and compliance with the laid down requirements in preparing the accounts. Similar workshops would henceforth be regularly held. The LCSD would also invite the Independent Commission Against Corruption to give talks to the NSAs to strengthen their internal controls; and
- the LCSD was seeking resources for the development of a computerised system to enhance operational efficiency. Subject to availability of funds, the LCSD would specify the user requirements of the system and invite tenders. It was expected that resources would be available in 2010-2011 and the system would be completed in 2011-2012. It was also hoped that the NSAs could make use of the system on their side, such as for submitting reports or information to the LCSD.

31. According to paragraph 4.29 of the Audit Report, the subvention agreements for 2008-2009 and onwards stipulated that the auditor report on an NSA's annual accounts shall contain an expression of opinion on the NSA's compliance with the subvention agreement, and all rules and instructions issued by the Government. However, the LCSD had not revised the sample auditor report in the Handbook on Sports Subvention Scheme to take into account the new audit requirements. It was also revealed that the NSAs had not issued engagement letters to their auditors to set out the scope of the audit of the accounts of subvented activities. As such, there was no assurance that the LCSD's stipulated audit requirements had been clearly communicated to the NSAs' auditors. The Committee asked whether the LCSD would rectify such problems.

32. The **Director of Leisure and Cultural Services** said that some NSAs had overlooked such requirements. The LCSD would definitely implement the audit recommendations.

## **E. Conclusions and recommendations**

33. The Committee:

- considers that:
  - (a) the various problems identified by the Director of Audit in this Chapter are mainly attributable to there being inadequate correlation between the determination of the amounts of subvention to the National Sports Associations ("NSAs") under the Sports Subvention Scheme ("the Scheme") and the NSAs' performance. The Scheme should not be administered in such a way as to create an expectation on the part of an NSA that once subvention has been granted to it, it will continue to receive subvention in the following year upon application irrespective of its performance; and
  - (b) since taking over the responsibility for managing the grant of subvention to the NSAs from the former Hong Kong Sports Development Board ("HKSDB") in April 2004, the Leisure and Cultural Services Department ("LCSD") has largely inherited the practices of the HKSDB in administering the Scheme without critically reviewing whether and how the system has been able to achieve its objectives in promoting sports development in Hong Kong;
- acknowledges that the Director of Leisure and Cultural Services will set up a working group in January 2010 to conduct a comprehensive review of the current subvention system with a view to improving its efficiency and effectiveness, ensuring compliance and maintaining a balance between control and flexibility on the use of public funds by the NSAs;

- urges the Director of Leisure and Cultural Services, in conducting the comprehensive review, to:
  - (a) consult the NSAs and other stakeholders;
  - (b) expeditiously put forward a proposal to optimise and rationalise the subvention system; and
  - (c) ensure that the determination of subvention is suitably correlated to an NSA's performance;

#### Allocation of subvention

- expresses concern that due to the lack of clear and objective criteria for determining the amounts of subvention to be granted to the NSAs, the subvention has been mechanically allocated with little, if any, reference to the NSAs' performance, as illustrated below:
  - (a) although an NSA is required to set performance targets on four suggested key result areas in the annual plan of an application for subvention, in relation to the 2008-2009 annual plans submitted by the six NSAs reviewed by the Audit Commission ("Audit"), one NSA did not set any performance targets at all and 73% of the performance targets set by the other five NSAs were qualitative in nature. Only one of the six NSAs set a performance target on submission of reports and financial statements for the key result area "Management";
  - (b) the LCSD mainly followed the methodology set by the former HKSDDB for determining the subvention to NSAs and had not critically reviewed the reason for using two different approaches and different maximum subvention percentages in determining the subvention for different categories of sports programmes; and
  - (c) the LCSD did not assess the reasonableness of the 2008-2009 budgets of two sports programmes having regard to the preceding year's actual expenditure/income information, which was not made available by the NSA concerned when the LCSD vetted the budgets. In the event, there was significant variance between the budgets and the actual outcome, resulting in a surplus in the subvention granted;

- acknowledges that the Director of Leisure and Cultural Services:
  - (a) will actively explore how the NSAs can be encouraged to set more objective/quantitative performance targets and how the NSAs' achievement of the targets can be better linked with the next subvention allocation;
  - (b) will consider introducing a system to reward/penalise the over/under achievement of performance targets by the NSAs; and
  - (c) has agreed to implement the audit recommendations in paragraph 2.17 of the Director of Audit's Report ("Audit Report");
- urges the Director of Leisure and Cultural Services to expeditiously take measures to:
  - (a) ensure that the NSAs comply with the requirement of setting performance targets in the annual plans of their subvention applications;
  - (b) encourage the NSAs to set more objective/quantitative performance targets, and ensure that the NSAs' performance is measured against such targets; and
  - (c) establish clear and objective performance-based criteria to determine the amounts of subvention to be granted to the NSAs, so as to motivate the NSAs to improve their performance;

#### Monitoring of NSAs' performance

- expresses concern that the LCSD has been ineffective in monitoring the performance of the NSAs, and has not actively reviewed how the effectiveness of its monitoring work can be improved:
  - (a) six NSAs were late in submitting some of their reports and financial statements for 2007-2008 and 2008-2009 and there were inadequacies in their reporting of some required information, despite the requirements in the Handbook on Sports Subvention Scheme;
  - (b) the LCSD staff had not taken timely follow-up action on the late submission of reports and statements of accounts (e.g. there was delay in issuing reminders to the NSAs despite the requirement in the LCSD operational guidelines);
  - (c) the LCSD took, on average, 16.6 months to process the 2006-2007 accounts of subvented activities of six NSAs;

- (d) the LCSD has not made use of information technology to help automate and streamline its administrative work (e.g. generating and issuing reminders electronically to follow up overdue reports with the NSAs);
  - (e) the LCSD staff committed errors in calculating the reserve fund balance of four of the six NSAs; and
  - (f) the LCSD did not comply with the operational guidelines in carrying out inspection on sports programmes held in non-LCSD venues;
- expresses concern that:
- (a) there are no guidelines for inspecting subvented programmes held by the NSAs in the LCSD venues, despite that most of the programmes were held therein; and
  - (b) the LCSD's practice of allowing the NSAs to retain the unspent subvention of cancelled programmes under lump sum subvention may not be conducive to encouraging them to implement all programmes under lump sum subvention;
- acknowledges that the Director of Leisure and Cultural Services:
- (a) has commenced a business process re-engineering study with a view to rationalising and streamlining the workflow for the administration of the Scheme and, subject to availability of funds, will develop a computerised system for completion in 2011-2012;
  - (b) will review the manpower resources required for the proper and effective administration of the Scheme as part of the comprehensive review to be conducted, given the increase in the subvention amount, the number of programmes administered and the increasing complexity of the monitoring mechanism; and
  - (c) has agreed to implement the audit recommendations in paragraphs 3.25 and 3.32 of the Audit Report;
- urges the Director of Leisure and Cultural Services, in undertaking the re-engineering study, to:
- (a) critically review the current methodology for monitoring the performance of the NSAs, and consider adopting a risk-based approach in vetting reports and conducting on-site inspections, taking into account the risk profile of the NSAs and the sports programmes;

- (b) actively explore ways to streamline the monitoring procedures, such as reviewing the types and frequency of reports and financial statements to be submitted by the NSAs to the LCSD, having regard to the need to ensure accountability in the use of public funds without burdening the NSAs with unnecessary administrative work;
- (c) expedite the use of information technology to facilitate the monitoring work of the LCSD and to enhance the operational efficiency of the NSAs;
- (d) expeditiously review the manpower requirements of the LCSD to ensure the efficient and effective administration of the Scheme, and consider enlisting the assistance of accounting professionals where necessary; and
- (e) organise regular training for the LCSD staff to familiarise them with the relevant operational guidelines;

#### Internal controls of NSAs

- expresses concern that:
  - (a) the Quality Assurance Section of the LCSD found common internal control weaknesses among the NSAs and reporting errors in their annual accounts, but the LCSD senior management failed to ensure that the recommendations of the Quality Assurance Section were promptly followed up and that the implementation of the recommendations was effectively monitored;
  - (b) Audit's review of the implementation of the Quality Assurance Section's recommendations by six NSAs revealed that there were still weaknesses in their internal controls and reporting errors in their accounts similar to those identified by the Quality Assurance Section;
  - (c) the LCSD had not provided training to help NSAs improve their internal controls for more than two years; and
  - (d) the LCSD had not taken measures to ensure the implementation of the new audit requirements introduced in the subvention agreements for 2008-2009, e.g. a revised sample auditor report had not been provided to the NSAs, and the NSAs had not issued engagement letters to their auditors to set out the scope of the audit of the accounts of the subvented activities;
- acknowledges that the Director of Leisure and Cultural Services has agreed to implement the audit recommendations in paragraphs 4.10, 4.16 and 4.30 of the Audit Report;

- urges the Director of Leisure and Cultural Services to:
  - (a) provide more training to the NSAs to help them improve their internal controls and comply with the laid down requirements; and
  - (b) explore an appropriate accounting software for use by the NSAs to facilitate and expedite the management of their accounts and the preparation of financial statements for submission to the LCSD; and

Follow-up actions

- wishes to be kept informed of:
  - (a) the progress and result of the comprehensive review of the subvention system, including the specific proposal to optimise and rationalise the system;
  - (b) the measures taken to ensure that the NSAs comply with the requirement of setting performance targets in the annual plans of their subvention applications;
  - (c) the measures taken to encourage the NSAs to set more objective/quantitative performance targets, and ensure that the NSAs' performance is measured against such targets;
  - (d) the measures taken to establish clear and objective performance-based criteria to determine the amounts of subvention to be granted to the NSAs;
  - (e) the result of the review on the methodology for monitoring the performance of the NSAs;
  - (f) the measures taken to streamline the monitoring procedures;
  - (g) the progress made in using information technology to facilitate the monitoring work of the LCSD and to enhance the operational efficiency of the NSAs;
  - (h) the result of the review on manpower requirements of the LCSD for the efficient and effective administration of the Scheme;
  - (i) the progress made in exploring an appropriate accounting software for use by the NSAs to facilitate and expedite the management of their accounts and the preparation of financial statements for submission to the LCSD; and
  - (j) the progress made in implementing the various audit recommendations.