



香港藝術節協會有限公司 Hong Kong Arts Festival Society Ltd

Date: 27 May 2019

Your Ref: CB4/PAC/R72

Mr Anthony Chu
Clerk to Public Accounts Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 6 of the Director of Audit's Report No. 72
Hong Kong Arts Festival Society Limited

I refer to your letter dated 15 May 2019 requesting response and/or further information from Hong Kong Arts Festival Society Limited on Chapter 6 of the Director of Audit's Report No. 72. Our reply in both languages is set out in the Appendix for the Public Accounts Committee's consideration.

Yours sincerely

Tisa Ho
Executive Director

Encl.

c.c. Secretary of Home Affairs (fax no. 2591 5536)
Director of Leisure and Cultural Services (2691 4661)
Secretary for Financial Services and the Treasury (2147 5239)
Director of Audit (fax no. 2583 9063)

Public Accounts Committee

Consideration of Chapter 6 of the Director of Audit's Report No. 72

Hong Kong Arts Festival Society Limited

For the Hong Kong Arts Festival Society Limited

Part 2: Programme Management

1. According to paragraph 2.7, the required number of quotations in two cases had not been obtained. Why have these two cases deviated from the requirement as stipulated in the procurement guidelines of HKAFSL? Does HKAFSL consider such deviation unsatisfactory? When and how will HKAFSL take follow-up actions on the audit recommendations as mentioned in paragraph 2.8? Apart from the audit recommendations, what improvement measures have been/will be taken to avoid recurrence of similar problem in future?

Of the two items identified, one was a stage prop and selected based on design considerations. The other was electric drills and bits, purchased from a retail shop after cost comparison was made by enquiry in several shops, equivalent to verbal quotations. In both cases, staff involved sought to secure the necessary items at the lowest possible cost.

HKAFSL acknowledges that there is room for improvement in documentation. This will be emphasised at a staff briefing, and incorporated into purchasing guidelines.

2. With reference to Case 1 in paragraph 2.12, please explain why there was a large variance in the number of programme crews and the ratio of "chief crews and basic crews" between the two programmes. Whilst HKAFSL described the deviation as the result of the best judgment from the responsible staff, please provide the decision-making procedures and appropriate supervisory scrutiny under existing policy and practice. Does HKAFSL consider the lack of documentation on the use of manpower unsatisfactory? If yes, what measures have been/will be adopted to rectify the situation?

HKAFSL had already provided the explanation to Audit that the two programmes were very different in scale and nature.

One is a play on a relatively small stage with one fixed set and small cast of actors in contemporary dress. The other is a large scale ballet in the biggest venue in Hong Kong, and featured a very big cast of dancers requiring multiple changes of fantastical costumes with different wigs and makeup, and multiple set and scene changes with many different lighting effects. The two are not comparable. Crew required for each production was

determined not only by best judgement of staff taking into account the scale and complexity of the work, but also in compliance with stipulations in the international artists' contract.

Several levels of authority are involved. After considering the provisions in the technical rider of the artist's contract as negotiated by the project officer, the technical co-ordinator arranges for engagement of crew. The technical co-ordinator reports to the Production Manager for endorsement and approval of the Head of the Programme Department who has control of the budget; and thereafter to the Executive Director.

3. According to paragraph 2.14(c), the service fee paid to a programme crew was calculated based on a wage rate which was higher than standard. In this regard, what are the wage rate for the above crew and the normal rate? How does HKAFSL define "special skills" and set a higher rate for programme crews under existing policy? Is there a maximum limit for the payment amount and wage rate of individual crews?

As marked on time sheet of the case identified in the Audit review, the higher rate was paid to a technician who had to operate a spotlight from a particularly narrow space in a technically sophisticated show. The time sheet stating the rate and nature of work is counter-signed by the technical co-ordinator, endorsed by the Production Manager, and approved by the Programme Director. The difference in rate was \$20. This higher rate is in line with prevailing rates in the sector. HKAFSL reviews crew rates on an annual basis.

4. According to paragraph 2.17, HKAFSL had not signed any service agreements stipulating the terms of engagement with the 15 programme crews. Please advise:
 - (a) the recruitment process of programme crews under existing policy.
 - (b) How does HKAFSL ensure the accountability of programme crews and maintain control on payment of service fees without signing service agreement?
 - (c) how does HKAFSL ensure that the interests of both HKAFSL and programme crews are properly protected?
 - (d) whether HKAFSL has adopted the practice of signing service agreements with programme crews as suggested by Audit in paragraphs 2.18(c).

All recruitment is conducted by open advertisement. The time sheet for each crew is on HKAFSL letterhead and contains personal contact information, rate of pay and payment method, position of the crew and project title. HKAFSL understands that it must comply with all prevailing legislation. The time sheet is signed by the crew and counter signed by duly authorised HKAFSL personnel, and serves as a de facto service agreement.

5. With reference to paragraph 2.27, please explain why HKAFSL did not specify any requirements or written guidelines on blocked seats. What are the usual requirements on blocked seats (e.g. the number of seats to be blocked, the designated purposes and when they should be released). With reference to paragraph 2.31(b), please advise whether written guidelines on the use of blocked seats have been drawn up. If yes, what are the guidelines? If not, why not?

There is clear understanding within HKAFSL as to the reasons for blocking certain seats, and the conditions under which they may be released.

Specific seats are blocked for various reasons including: accommodating technical requirements such as sound panels, projectors, cameras etc as necessary for each show; consideration of sightlines and audio coverage depending on the set and/or sound setup; house-seats withheld by venue management; and special characteristics of the venue in relation to the type of performance.

These considerations are discussed and agreed in inter-departmental consultations at management level. Then based on shared understanding and agreed parameters, taking into account the special conditions and requirements of each show, the blocked seats are marked, endorsed, and signed off by all relevant departments in readiness for box office operations which begin around six months prior to show date.

After the show is set up, usually a few days prior to start of performances, subject to the agreement of the artists and endorsement of the subject officer, where there is unfulfilled audience demand, and when the audience accept a compromise in sightlines or other conditions, blocked seats may be released. The number of seats released is added to the computation of total seats available.

This is the institutionalised Standard Operating Procedure for treatment of blocked seats.

6. According to paragraph 2.34, LCSD will work with HKAFSL on the reporting requirements on attendance and specify separate performance indicators in funding and service agreements. What progress has been made?

HKAFSL has discussed reporting requirements on attendance with LCSD, and the following have been established for inclusion in future reporting:

- (a) *Number of paid audience for performances excluding complimentary tickets*
- (b) *Attendance rate of paid audience for performances excluding complimentary tickets*
- (c) *Number of paid audience for Festival Plus*

Part 3: Funding of the Hong Kong Arts Festival Society Limited

7. With reference to paragraph 3.8, please explain why HKAFSL had not taken into account the need to recover a target proportion of costs through ticket sales and the needs of senior citizens in setting ticket prices. What improvement actions will HKAFSL take to rationalize the level of ticket price? Has HKAFSL conducted any review on the practices on setting ticket prices as suggested by Audit in paragraph 3.10? If yes, what is the outcome? If not, why not?

The mission of the HKAFSL is to serve Hong Kong by making quality performances as affordable to as many people as possible. The guiding principles are: service, access, and inclusion. It is not the purpose of the organisation to serve only those who can pay for its programmes.

Ticket pricing is discussed across departments at management level in each annual cycle, taking into account a range of considerations including market conditions, competitiveness, audience appetite and educational and community value, as well as cost.

HKAFSL takes a very prudent and responsible approach to organisational sustainability and has consistently achieved a balanced budget taking into account all necessary costs and income streams, including box office revenue, for which targets are set in each budget cycle.

In this context, and without additional, specific resources, concessionary tickets for one group imposes a burden that will have to be factored into higher costs for others and would therefore be contrary to the spirit of inclusion, access, and equal service to all.

8. According to paragraph 3.12(b), HKAFSL has already made an application to the Government for specific support with regard to the senior citizens' discount. What are the details and the updated progress?

HKAFSL does not have details of any updated progress and hopes to receive good news in due course.

9. With reference to Table 8 of paragraph 3.13(b), please explain/provide:

(a) the reasons for the delay in submitting reports to LCSD.

(b) the reasons for having no records on whether the reports had been submitted as stipulated in Note 4 to Table 8 and whether HKAFSL/LCSD consider the situation unsatisfactory.

(c) the improvement measures that have been/will be taken to avoid recurrence of the above problems in future, including whether a checklist has been devised and action taken would be documented.

HKAFSL acknowledges that there is room for improvement in record keeping. However, with regard to late reports mentioned in the Audit report, it should be noted that:

- (a) Before 2017/18, HKAFSL was required to submit unaudited accounts and audited accounts by 30 June and 30 September respectively. This was not possible as the HKAFSL financial year ends on 30 June, and the AGM at which audited accounts are approved is usually held in October. After the submission dates were revised to 31 August and 30 November respectively, HKAFSL was able to make timely submission.*
- (b) Two of the reports cited as being late related to the Matching Grant, which was established as a pilot scheme in 2016/17. HKAFSL has been working closely and diligently with LCSD and with its auditors to clarify requirements, and strongly wished to clear matters expeditiously so that final payments can be released.*
- (c) HKAFSL has put in place a check list and Bring Up system to ensure timely reporting in future.*

10. With reference to paragraph 3.20(c), please advise the progress on revising the performance indicators, and provide details of the revised performance indicators (if any). When will the new indicators be adopted?

Performance indicators are reviewed on an annual basis in consultation with LCSD and incorporated into the funding agreement. New indicators have already been adopted for 2019/20.

Part 4: Governance and Administrative Issues

11. According to paragraphs 4.5 and 4.6, 35% to 54% of the Executive Committee and its supporting committees members in HKAFSL did not sign the undertakings on declaration of conflicts of interest, and HKAFSL has not adopted a two-tier reporting system for the declaration of conflicts of interest. Please advise:

- (a) whether HKAFSL/LCSD was aware of the non-compliance with the "Guide to Corporate Governance for Subvented Organisations" before Audit raised the issue to HKAFSL. If yes, why is it the case?
- (b) the measures that have been taken to address the issue, and whether HKAFSL has adopted a two-tier reporting system for declaration of conflicts of interest as suggested by Audit in paragraph 4.11(b). If not, the reasons for not implementing the two-tier reporting system.
- (c) the updated progress of the signing of undertakings (see paragraph 4.12), and when will the follow-up actions be completed.

HKAFSL will institute the two-tier reporting system for declaration of conflicts of interest as soon as possible within the current calendar year.

In the meantime, current members who had not signed the undertaking on declaration of conflicts of interest will be asked to do so immediately. Any potential conflict of interest is declared in the course of a meeting in which this may arise, and duly documented in the notes or minutes of meeting.

12. With reference to paragraph 4.22(a), please advise the measures that have been adopted to address the high staff turnover rate in HKAFSL. Have the measures been effective?

HKAFSL has taken a lease on additional office space and installed air quality control mechanisms in the hopes of improving physical working conditions of the staff. We will continue to organise sharing, team building and training activities for staff.

It is hoped that this will help. However, it would be naïve to believe that this is enough to counter current trends in demographic and work force projections across Hong Kong, and to withstand the pressures of anticipated recruitment by the West Kowloon Cultural District as its facilities come on stream. Losing staff may continue to be a reality for HKAFSL.