

The Audit Commission ("Audit") conducted a review of the Hong Kong Arts Festival Society Limited ("HKAFSL").

2. HKAFSL is a non-profit-making organization established in 1972 under the then Companies Ordinance (Cap. 32). The mission of HKAFSL is to present the Hong Kong Arts Festival ("HKAF"), an annual arts festival of the highest artistic standard. As at 31 December 2018, HKAFSL had a total of 58 staff. In 2017-2018, HKAFSL had a total income of \$127.7 million (including \$39 million government subventions) and a total expenditure of \$126.1 million. The Leisure and Cultural Services Department ("LCSD") is responsible for overseeing the government subventions provided to HKAFSL.

3. The Committee noted the following findings from the Director of Audit's Report ("Audit Report"):

- in two of 15 procurements of goods and services in 2017-2018 examined by Audit, the required number of quotations<sup>1</sup> had not been obtained in accordance with HKAFSL's procurement guidelines;
- Audit examined the 42 programmes held under 46<sup>th</sup> HKAF in 2018 and found that:
  - (a) there was a large variance in the manpower resources deployed to different programmes. Programme A and Programme B mentioned in Case 1 in paragraph 2.12 of the Audit Report had 26 and 60 programme crews respectively. The ratio of "chief crews to basic crews" of Programme A was 1:8, and that for Programme B was 1:59. HKAFSL records did not document that the above arrangement had been subjected to supervisory scrutiny;
  - (b) HKAFSL had not signed any service agreements stipulating the terms of engagement with 15 programme crews,<sup>2</sup> and information supporting the payments for these crews had not been adequately documented. The service fee paid to a programme crew

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<sup>1</sup> According to HKAFSL's procurement guidelines, at least two quotations should be obtained for expenses between \$5,000 and \$25,000, and at least three quotations should be obtained for expenses above \$25,000.

<sup>2</sup> Audit selected the 15 programme crews on a random basis.

in March 2018 was calculated based on a wage rate which was higher than the standard rate, but HKAFSL records did not show how that particular higher rate was set;

- (c) 708 of the total number of paid audience (i.e. 105 034) HKAFSL reported to LCSD were complimentary tickets provided to press media and guests, while it was stipulated in the funding and service agreements ("FSAs") signed between HKAFSL and LCSD that the number of paid audience<sup>3</sup> should exclude all complimentary tickets; and
- (d) there were no guidelines on the use of blocked seats, and 4 506 of 21 746 blocked seats had subsequently been released;
- HKAFSL had been successful in raising large amounts of money from sponsors and donors over the years. However, heavy reliance on sponsorship/donations might put sustainability of HKAFSL at risk as this income stream was dependent on many factors outside HKAFSL's control;
  - when setting ticket prices for HKAFs, HKAFSL had not taken into account the need to recover a target proportion of costs through ticket sales. Moreover, HKAFSL provided discounted tickets only to full-time students and people with disabilities but not to senior citizens;
  - when expected level of performance indicator in FSAs was not attained by HKAFSL, the expected level was lowered in the ensuing year and would not be raised again;
  - according to FSAs, HKAFSL was required to submit reports/accounts to LCSD by specified dates each year. However, between 2013-2014 and 2017-2018, there were cases of late submission of reports, and records of LCSD and HKAFSL did not show whether four reports/accounts had been submitted;
  - in each year from 2014-2015 to 2018-2019, 35% to 54% of members of HKAFSL's Executive Committee and its supporting committees did not sign the undertakings on declaration of conflicts of interest. HKAFSL

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<sup>3</sup> LCSD assesses annually the performance of HKAFSL against performance indicators in FSAs, and number of paid audience excluding complimentary tickets was one of the performance indicators.

had not adopted a two-tier reporting system for the declaration of conflicts of interest; and

- in each year from 2016 to 2018, 22% to 34% of staff left HKAFSL, and 29% to 51% of staff had newly joined HKAFSL for less than one year.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the measures to improve HKAFSL's procurement practices, management of programme crews and ticketing matters, and reporting system for declaration of conflicts of interest for members of HKAFSL's Executive Committee and its supporting committees; the Administration's monitoring of the subventions to and performance of HKAFSL; and the measures to address the high staff turnover rate in HKAFSL. The replies from **Secretary for Home Affairs, Director of Leisure and Cultural Services** and **Executive Director of HKAFSL** are in *Appendices 13 to 15* respectively.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.