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1 June 2020

Mr Anthony CHU
Public Accounts Committee Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr CHU,

Public Accounts Committee
Consideration of Chapter 1 of the director of Audit's Report No. 74
Management of funding for sports development through
the Arts and Sport Development Fund (Sports Portion) (ASDF)

Thank you for your letter dated 18 May 2020 regarding Chapter 1 of the Audit Report. We are pleased to provide the required information as below to facilitate Public Accounts Committee's consideration.

Part 2: Funding for Hong Kong athletes to prepare for and participate in international games

(a)(i) example and calculation methodology of the 1% refund from a grantee who fails to submit reports on time

A grantee is required to refund the approved grants to the ASDF in case of failure to submit audited accounts and/or post-event reports six months after the events, calculated as 1% of the approved ceiling subvention amount for every month of further delay, until the grantee submits all the post-event reports and audited accounts.

For illustration, a grantee has been approved for a grant of \$263,465 under ASDF for Preparation Fund for a multi-sports games for the period from June to August 2018. The grantee should submit report by end of February 2019, which is six months after the event. Since the grantee submitted the required reports on 30 April 2019, the grantee was required to refund 1% of the approved ceiling subvention amount for every month of further delay due to late submission. The refund amount is \$5,269.3 (i.e. approved amount of \$263,465 x 1% x 2 months).

(a)(ii) since 2015-2016, whether there is any grantee requested to make refund due to the delay in submission of reports for over six months

During 2015-16 to 2018-19, there were 5 cases of preparation and participation funds in which the grantees were requested to make refund due to late submission of programme reports and/or audited accounts for over six months. Details are listed at **Annex A**.

(a)(iii) details of the six cases which 1% was not refunded for the delay in submission of reports and accounts

LCSD currently adopts an approach of counting calendar month instead of calendar days to calculate the deadline. For example, if an event is completed on 15 January, charges will only be imposed after 31 July which is the end of the 6th calendar month upon event completion instead of 15 July by counting on calendar day. Under this approach, these cases would not be counted as overdue. Details of the six cases are listed at **Annex B**.

(a)(iv) whether there is a mechanism for exercising discretion to waive the 1% charge on delay; please provide the details and justifications

There is no mechanism for exercising discretion to waive the 1% fee for late submission of reports.

For projects A, B, C and E at **Annex B**, the subject officers followed the approach of counting calendar month in deciding whether to impose the 1% charge on delay. For sake of consistency and avoid misinterpretation, we will set out clearly in our revised operation manual of the calendar month approach for officers to follow.

For project D, it is noted that the actual end date of event should be 8 September 2017 instead of 9 August 2017. As such, there should be no delay in submission

of reports for this particular case.

For project F, which was ended on 4 August 2016, the first programme report was submitted to LCSD on 7 December 2016. After receipt of the report, LCSD raised clarification with the grantee who submitted the finalised programme report to LCSD on 13 March 2017. Similarly, the first and finalized audit accounts were received on 11 January 2017 and 15 February 2017 respectively. As the submission of the first reports was within the deadline of six calendar months, we did not charge the grantee for delay in submission of the finalized programme reports and/or audited accounts.

(b)(i) how performance targets were set; whether there are specific guidelines for setting of performance targets; if yes, a copy of such guidelines; if no, whether guidelines would be drawn up

NSAs are in the best position to set performance targets such as rise in world ranking, breaking of personal best record, mode of training and number of training sessions attended etc.. Since the nature of sports and competition level of international games vary significantly, it is not practical for LCSD to draw up guidelines or set targets for applicants. The purpose of setting performance target and reporting the achieved result is to facilitate the grantee for self-assessment rather than deciding the amount of fund to be granted. Please refer to HAB’s reply for details of the funding criteria of preparation and participation fund.

(b)(ii) details on performance targets and results of two applications

The details on the performance targets and results of the two applications are tabulated below.

Application	Event	Projected achievements of the athletes marked on Application form	Achieved Target marked on Programme Report
A	Preparation Fund for a multi-sports games held in 2018	Top 16 in the Games	Enhance skills and gain experience
B	Preparation Fund for a multi-sports games held in 2016	Top 1/3 ranking for a Race	Not reported

(b)(iii) when will the review of funding guidelines be completed and be available; whether the guidelines would provide suggestions on the setting of practical and achievable targets

The review on performance targets is expected to be completed by end of June. If some measurable or quantitative performance indicators are identified and considered suitable, we will specify the requirement for grantees' compliance.

(b)(iv) how to monitor the use of preparation funds if performance targets were not set or not reported; are there better measures to monitor the use of funds

There are ceiling amount for qualified athletes or teams in the preparation fund. Also, there are eligible items stated in the training plan, such as employment of additional coaches, additional local training, overseas competitions and training, purchase of additional equipment, provision of on-field support, medical, insurance, international transportation and accommodation. LCSD will monitor the use of the approved grants according to the capped ceiling amount of eligible items.

(c)(i) is there policy to govern the variances of estimated and actual amounts of income and expenditure; if no, the reasons for that

At present, there is no policy or mechanism governing the variances of significant amount or percentage between the estimated and actual amounts of income and expenditure. In fact, as estimated expenditures are only the proposed level of subsidy rather than the amount agreed by LCSD, we do not consider it appropriate to compare the estimated expenditure with the actual expenditure. Instead, it is more logical to consider the variance of the approved expenditure and the actual expenditure. LCSD will modify the current report form for programmes under ASDF to require an explanation of variance of 25%.

(c)(ii) details of the 24 applications with estimated expenditure more than actual expenditure, and explanations for the variance of 87%

15 out of 24 applications shown in Table 6 are under the purview of LCSD. For details of these applications, please refer to **Annex C**. While the

percentage of variance between estimated expenditure and actual amount of expenditure ranged from 32% to 87%, the variance between approved expenditure and actual expenditure is significantly different ranging from -1% to 75%. Only 5 cases have a variance of over 25%.

(c)(iii) can the applicants revise their estimates; if no, any measures to reduce variances

The applicants can revise their estimates before the budget is approved.

(c)(iv) the progress of the review on relevant guidelines for explaining variances between estimated and actual expenditure/income, and the new report proforma if available

In connection to (c) (ii), LCSD considers it more appropriate to compare the actual expenditure with the approved expenditure. We will work with HAB to draw up new programme report proforma by end of June.

(d)(i) why there were no guidelines on the scope of audit

Currently, there is an Auditor's Guide for programmes under the Sports Subvention Scheme (SSS) for NSAs' compliance. These NSAs under SSS (subvented NSAs) are expected to follow this Auditor's Guide which imposes a requirement for auditors to certify grantee's compliance with the procurement requirements and the Code of Conduct. Therefore, LCSD has not issued separate guideline to these subvented NSAs on the scope of audit for programmes under ASDF.

(d)(ii) the progress of guidelines modification for ensuring the auditors certifying the compliance of procurement requirements and the Code of Conduct, and alert the grantees on the consequence if any non-compliance is spotted

With effect from 1 June 2020, LCSD will remind grantees to request their auditors to certify their compliance with the procurement requirements and the Code of Conduct in completing the audited account of programmes under ASDF. LCSD will also alert the grantees on the consequence if any non-compliance is spotted.

(d)(iii) other measures to ensure compliance with the procurement requirements and the Code of Conduct by grantees

LCSD will explicitly state in the approval letter of programmes under ASDF to remind grantees to comply with the requirement.

(e) provide any grantees who were repeatedly late for returning unspent balances in the period from 2014-2015 to 2018-2019

No other grantees were repeatedly late for returning unspent balances.

(f)(i) the workflow of verifying grantees' audited accounts for the return of unspent balances of the approved grant amount by grantees

The workflow is attached at **Annex D**.

(f)(ii) the staff establishment and strength for handling verification work and unspent balances; whether the current manpower is adequate

The administration work on funding application of programmes under ASDF are only part of the duties of LCSD staff concerned. There are 45 numbers of staff being involved for undertaking the administration work of programmes under ASDF. The current manpower is considered adequate for the tasks.

(f)(iii) measures to ensure timely return of unspent balances

HAB will review the existing mechanism with LCSD and consider imposing penalties to applicants who are late in returning unspent balances. The relevant measures will be announced by the end of June.

Part 3: Funding for international sports events

(g)(i) why the assessment criteria for MMEs and MLIEs are different; whether applications under each category would be subject to the same assessment criteria

There are variances in the assessment criteria for "M" Mark events (MMEs) and Major Local International Events (MLIEs) because there are significant

***Note by Clerk, PAC:** See Annex IV to Appendix 9 of this Report for Annex D.

differences in the scale and nature of the events under the two categories. MMEs are large-scale events (such as the Hong Kong Marathon and Hong Kong Sevens) that could attract large number of spectators and participants including overseas visitors. These events have the potential to attract larger amount of sponsorship and a maximum matching funding of \$10 million could be granted. Therefore the assessment criteria for MMEs include economic impacts of the event and the possibility to secure private and business sector sponsorship. On the other hand, MLIEs are of much smaller scale (such as Asian or major regional championships) which are not expected to generate substantial economic impact or attract large amount of sponsorship. Nevertheless, all applications under each category are subject to the same set of assessment criteria.

(g)(ii) the process and scoring system for assessing MMEs and MLIEs by VCSS

For MMEs, assessment of applications takes place throughout the year. All applications are scrutinized and vetted by the Major Sports Events Committee (MSEC)'s Vetting Panel (VP) with the support of the Secretariat in accordance with the vetting criteria and the scoring table for M Mark events. The recommendations from the VP on applications will then be presented to MSEC and Sports Commission for endorsement and approval respectively. The vetting criteria and scoring table for M Mark events are at **Annex E** and **Annex F** respectively.

For MLIEs, LCSD issues invitation letters to NSAs and Sports Organisations (SOs) under LCSD Sports Subvention Scheme in August/ September every year for submission of applications in the coming three years. All applications are scrutinized and vetted by the Vetting Committee for Sports Subvention (VCSS) in accordance with the vetting criteria and the scoring table for MLIEs. The recommendations from the VCSS on applications will then be submitted to HAB for approval. An approval-in-principle will be given to the NSAs/SOs. The NSAs/SOs are required to submit a formal application with full details of concerned MLIEs to LCSD at least four months before the date of event. The assessed applications will then be submitted to the VCSS for endorsement and HAB for approval. The scoring system for MLIEs is at **Annex G**.

****Note by Clerk, PAC: Refer to Major Sports Event's website for Annex E and see Annexes VIII and IX to Appendix 9 of this Report for Annexes F and G respectively.***

(h) provide the length of delay in the submission of programme report and audited reports for Events C and D. If there were delays, justifications for awarding scores to Events A, B and C

For Event C, the end date of event was 28 May 2017. The grantee submitted audited report and programme report on 2 November 2017 (within six calendar months) and 25 September 2017 (within six calendar months) respectively. According to the calculation method of late report by using six months after the event as mentioned in (a)(i), there is no late submission of report for Event C.

For Event D, the end date of event was 4 July 2016. The grantee submitted the audited report and programme report on 25 November 2016 (within six calendar months). According to the calculation method of late report by using the deadline as mentioned in (a)(i), there is no late report for Event D.

(i) provide an example illustrating the calculation methodology for the unspent balances of MLIEs and LIEs

The calculation methodology of unspent balance for MLIEs and LIEs is based on the equation below:

Unspent balance = Approved Cash Subsidy – (Actual Expenditure x Subsidy Level)

For example, the approved cash subsidy and actual expenditure of a MLIE held in 2018 were \$800,000 and \$605,026.86 respectively. The subsidy level was 70%. The unspent balance is calculated as follows:

$$\begin{aligned}\text{Unspent balance} &= \$800,000 - (\$605,026.86 \times 70\%) \\ &= \$800,000 - \$423,518.8 \\ &= \$376,481.2\end{aligned}$$

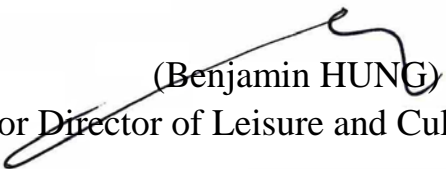
(j) the natures of MLIE A and MLIE B given the significant surplus amounts

The MLIE A is an Asian Olympic Qualification Tournament (Table Tennis). The VCSS scrutinized the application and recommended to grant subsidy from ASDF at the maximum amount of \$800,000, approved the LCSD subvention on notional venue charges at \$1,562,878 and recommended reserving a ceiling amount of \$200,000 in the form of matching fund from the ASDF to the event. Apart from LCSD subvention, the event attained

significant amount of income mainly came from sponsorship, entry fee and advertising fees, TV License fees and accommodation charge to participants that contributed to the significant surplus amount.

The MLIE B is an Asian Junior Team Championships (Squash), the VCSS scrutinized the application and recommended to grant subsidy from ASDF at the maximum amount of \$800,000, recommended reserving a ceiling amount of \$150,000 in the form of matching fund from the ASDF to the Championships and approved the LCSD subvention on notional venue charges at \$45,666. Apart from the cash subvention from the ASDF, the event attained significant amount income from sponsorship and athletes' entry fee that contributed to the significant surplus amount.

Yours sincerely,


(Benjamin HUNG)
for Director of Leisure and Cultural Services

c.c. Secretary for Home Affairs (fax no. 2591 5536)

5 Cases of late submission of programme report and/or audited accounts for over six months

Case	Programme Name	Approved Amount (HK \$)	End Date of Event	Deadline for Submission of Report	Date of Report Submitted by the Grantee	Deduction Methodology (HK\$)
1	Programme A	\$68,265	8 February 2017	31 August 2017	4 October 2017	\$68,265 x 1 % x 1 month = \$682.65*
2	Programme B	\$580,000	8 May 2017	30 Nov 2017	17 Jul 2018 (Programme Report) 30 Jul 2018 (Audit Report)	\$580,000 x 1 % x 8 months = \$46,400
3	Programme C	\$344,164	31 May 2017	30 Nov 2017	29 Jun 2018	\$344,164 x 1 % x 7 months = \$24,091.48
4	Programme D	\$263,465	16 Aug 2018	28 Feb 2019	30 Apr 2019	\$263,465 x 1 % x 2 months = \$5,269.30
5	Programme E	\$725,000	18 Aug 2018	28 Feb 2019	16 Apr 2019	\$725,000 x 1 % x 2 months = \$14,500

Remarks: * After a grantee is assessed to have made late submission of reports, we will charge 1% of late fee if the grantee submits the report between the 1st and last day of the first month after the deadline. Another 1 % will be charged if the report is received between the 1st and last day of the second month after deadline and so on. For Programme A, the subject officer interpreted that another 1 % late fee for the second month should not be charged unless the report was not received by last day of the second month. Therefore, only 1% late fee for one month was imposed. We have already briefed our staff of the proper calculation method.

Six cases appeared to be have late report over 6 months

Project Name	Date of Application	Start Date of Project	End Date of Project	Finalized Programme Report Submission Date	Finalized Statement of Account Submission Date	Date of Imposing Late Charge	Months	Note by Audit	Remarks by LCSD
Project A	26/06/17	1-Mar-18	12-Aug-18	15-Feb-19	15-Feb-19	1-Mar-19	6.2	without penalty	The subject officer acted in line with prevailing practice that the deadline was counted in calendar month basis.
Project B	26/06/17	1-Jan-18	19-Aug-18	1-Feb-19	20-Feb-19	1-Mar-19	6.2	without penalty	The subject officer acted in line with prevailing practice that the deadline was counted in calendar month basis.
Project C	26/06/17	16-Aug-18	1-Sep-18	28-Feb-19	6-Mar-19	1-Apr-19	6.2	without penalty	The subject officer acted in line with prevailing practice that the deadline was counted in calendar month basis.
Project D	26/06/17	27-Aug-17	9-Aug-17 8-Sep-17	12-Feb-18	12-Feb-18	1-Apr-18	6.2 5.2	without penalty	There was typo on the end date. It should be 8 September 2017. As such, there is no delay in submission of reports.
Project E	22/07/15	5-Nov-2015	14-May-2016	25-Nov-2016	25-Nov-2016	1-Dec-16	6.5	without penalty	The subject officer acted in line with prevailing practice that the deadline was counted in calendar month basis.
Project F	22/07/15	28-Jun-2016	4-Aug-2016	13-Mar-2017	15 Feb-2017	1-Mar-17	7.4*	without penalty	*The Audit Commission uses the submission date (Mar 2017) of the finalised programme report in deciding whether there was late submission. However, as LCSD had received the 1st programme report and 1st audited report on 7 December 2016 and 11 January 2017 respectively before raising clarification with the grantee, LCSD did not count the case as late submission when it received the finalised report after 6 months.

Remarks: Source from Audit Commission

Among the 24 applications shown in Table 6 with estimated amount expenditure more than actual amount of expenditure, 15 are handled by LCSD. Details of the amount and percentage of variances are tabulated below:

Case	Date of Approval	Estimated Expenditure (including non-eligible expenditure) (\$)	Approved Amount (\$)	Actual Expenditure (including non-eligible expenditure) (\$)	(Difference between Estimated Expenditure and Actual Expenditure) Calculation of Variance (\$)	(Difference between Estimated Expenditure and Actual Expenditure) Percentage of Variance (%)	(Difference between Approved amount and Actual Expenditure) Percentage of Variance (%)
		(a)	(b)	(c)	(d) = (a) - (c)	(e)=(d) / (a)	(f)=(b)-(c) / ((b)
1	2015-08-10	1,473,200.00	540,000.00	428,168.17	1,045,031.83	71%	21%
2	2015-08-10	1,083,840.00	540,000.00	546,379.91	537,460.09	50%	-1%
3	2015-08-10	702,195.00	180,000.00	142,665.00	559,530.00	80%	21%
4	2015-08-10	840,305.00	180,000.00	112,600.05	727,704.95	87%	37%
5	2017-05-23	1,445,635.00	1,219,712.00	977,032.22	468,602.78	32%	20%
6	2017-07-20	3,823,318.00	1,100,000.00	953,200.31	2,870,117.69	75%	13%
7	2017-07-20	1,668,020.00	960,000.00	960,816.42	707,203.58	42%	0%
8	2017-07-20	2,611,900.00	960,000.00	968,008.15	1,643,891.85	63%	-1%
9	2017-07-20	1,017,508.00	870,000.00	663,417.21	354,090.79	35%	24%
10	2017-07-20	952,791.00	697,419.00	437,634.55	515,156.45	54%	37%
11	2017-12-13	307,300.00	180,000.00	182,078.36	125,221.64	41%	-1%
12	2017-12-13	2,157,600.00	360,000.00	362,108.00	1,795,492.00	83%	-1%
13	2017-12-13	1,087,650.00	882,740.00	216,497.59	871,152.41	80%	75%
14	2017-12-13	1,019,812.00	976,912.00	508,114.38	511,697.62	50%	48%
15	2017-12-13	1,711,640.00	1,400,000.00	448,527.44	1,263,112.56	74%	68%

Remarks : 15 out of 24 events are under LCSD