

*Management of funding for sports development through  
the Arts and Sport Development Fund (Sports Portion)*

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**A. Introduction**

The Audit Commission ("Audit") conducted a review to examine the Administration's work in management of funding for sports development through the Arts and Sport Development Fund (Sports Portion) ("ASDF" - hereinafter ASDF refers only to its sports portion) (including funding for district and school sports schemes and Hong Kong Paralympic Committee & Sports Association for the Physically Disabled programmes, which were previously funded through ASDF and are now funded through the Home Affairs Bureau ("HAB")'s recurrent expenditure).<sup>1</sup> Audit has previously conducted several reviews on the subject of the provision of sports services and facilities.<sup>2</sup>

2. Hon Kenneth LEUNG declared that he had taken part in the Harbour Race, an "M" Mark event ("MME").

Background

3. According to HAB, ASDF is an important source of funding for sports development in Hong Kong. As at 31 March 2019, ASDF had a balance of \$2,396 million. ASDF funds: (a) projects of Sports Federation & Olympic Committee of Hong Kong, China ("SF&OC")<sup>3</sup> and National Sports Associations ("NSAs")<sup>4</sup> for supporting athletes to prepare for and participate in major international games; (b) projects for hosting international sports events locally by NSAs and sports organizations; (c) projects for the development of local football;

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<sup>1</sup> The schemes and the programmes have been funded through HAB's recurrent expenditure since 2016-2017 and January 2019 respectively. For the period 2016-2017 to 2018-2019, 1 881 approved projects were funded through HAB's recurrent expenditure for the schemes and programmes. The total amount of approved grants was \$72 million.

<sup>2</sup> In March and October 2004, Audit completed reviews entitled "Provision of aquatic recreational and sports facilities" (Chapter 7 of the Director of Audit's Report No. 42) and "Provision and management of indoor recreational and sports facilities" (Chapter 8 of the Director of Audit's Report No. 43) respectively. In October 2008, Audit completed a review entitled "Provision of recreation and sports services" (Chapter 10 of the Director of Audit's Report No. 51). In October 2009, Audit completed a review entitled "Administration of the Sports Subvention Scheme" (Chapter 1 of the Director of Audit's Report No. 53).

<sup>3</sup> A review of SF&OC was included in Chapter 2 of the Director of Audit's Report No. 74. The Committee's Report can be found in Chapter 2 of Part 4 of this Report.

<sup>4</sup> NSAs are the local governing bodies for various types of sports. Their main objectives are to promote and develop sports in Hong Kong, and to train and select delegations to participate in international sports events.

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(d) the Five-Year Development Programme for Team Sports (covering eight team sports); and (e) other one-off initiatives that are important to the development and promotion of sports in Hong Kong organized by SF&OC and NSAs. In 2018-2019, the total number of ASDF approved projects was 166 with an approved amount of \$123.8 million.

4. ASDF provides funding to the Hong Kong Football Association ("HKFA") for the development of local football through the implementation of football development plans, which comprised the Project Phoenix (in the period November 2011 to October 2014 (subsequently extended to March 2015)) and the Five-Year Strategic Plan ("FYSP") (in the period April 2015 to March 2020). HKFA is an NSA in Hong Kong, China responsible for promoting football development in Hong Kong and operating the Hong Kong football team, which represents Hong Kong to compete in international football events. Like all other NSAs, HKFA is an independent legal entity with full autonomy to run its affairs. The Board, comprising 11 directors, is responsible for the governance of HKFA.

5. HAB is advised by the Sports Commission ("SC") on the policies, strategies and implementation framework for sports development and the provision of funding and resources in support of sports development in Hong Kong, taking into account the input from various stakeholders in sports through partnership and collaboration. The members are appointed by Secretary for Home Affairs.

6. The Committee held four public hearings on 16 May (two hearings in morning and afternoon), 5 and 8 June 2020 to receive evidence on the findings and observations of the Director of Audit's Report ("Audit Report").

### The Committee's Report

7. The Committee's Report sets out the evidence gathered from witnesses. The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 14);
- Funding for Hong Kong athletes to prepare for and participate in international games (Part B) (paragraphs 15 to 36);

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- Funding for international sports events (Part C) (paragraphs 37 to 48);
- Funding for football development (Part D) (paragraphs 49 to 96);
- Funding for other sports programmes and schemes (Part E) (paragraphs 97 to 110);
- Governance of the Sports Commission and its committees (Part F) (paragraphs 111 to 118); and
- Conclusions and recommendations (Part G) (paragraphs 119 to 121).

Speech by Director of Audit

8. **Mr John CHU Nai-cheung, Director of Audit**, gave a brief account of the Audit Report at the beginning of the Committee's public hearing held in the morning on 16 May 2020. The full text of his speech is in *Appendix 4*.

Opening statement by Secretary for Home Affairs

9. **Mr Caspar TSUI Ying-wai, Secretary for Home Affairs**, made an opening statement on the Audit Report (except Part 4: Funding for football development) at the beginning of the Committee's public hearing held in the morning on 16 May 2020. The full text of Secretary for Home Affairs's opening statement is in *Appendix 5*.

Opening statement by Director of Leisure and Cultural Services

10. **Mr Vincent LIU Ming-kwong, Director of Leisure and Cultural Services**, made an opening statement at the beginning of the Committee's public hearing held in the morning on 16 May 2020. The full text of Director of Leisure and Cultural Services's opening statement is in *Appendix 6*.

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Opening statements by Secretary for Home Affairs and Chairman, HKFA on funding for football development

11. **Secretary for Home Affairs** made a statement at the beginning of the Committee's second public hearing held in the afternoon on 16 May 2020 about the development of football in Hong Kong and the role of HAB in monitoring the work of HKFA. The full text of Secretary for Home Affairs's opening statement is in *Appendix 7*.

12. **Mr PUI Kwan-kay, Chairman, HKFA**, made an opening statement at the beginning of the Committee's second public hearing held in the afternoon on 16 May 2020. The full text of Chairman, HKFA's opening statement is in *Appendix 8*.

13. With reference to paragraph 1.4 of the Audit Report, the Committee sought details on the management of ASDF, in particular the investment policy of the Fund.

14. **Mr YEUNG Tak-keung, Commissioner for Sports** said at the public hearings and **Secretary for Home Affairs** supplemented in his letter dated 1 June 2020 (*Appendix 9*) that:

- ASDF was a sub-fund of the Sir David Trench Fund for Recreation ("SDTFR") established under the Sir David Trench Fund for Recreation Ordinance (Cap. 1128). Secretary for Home Affairs was authorized by the Chief Executive to manage the use of funds, including disbursing money to projects that in his opinion, would make a significant contribution to the development of sports in the community. Director of Accounting Services was the Trustee of SDTFR; and
- as required by the said Ordinance, the Administration set up the SDTFR Investment Advisory Committee to formulate and to review from time to time the investment strategies for SDTFR and its sub-funds and to advise on matters in relation to investment. ASDF had all along been adopting a prudent strategy as approved by the Investment Advisory Committee with a diversified investment portfolio (mainly comprising overseas and Hong Kong equities managed by external fund managers and placements with the Exchange

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Fund) having regard to the prevailing market conditions and cash flow requirements to strike a balance between investment returns and risks.

**B. Funding for Hong Kong athletes to prepare for and participate in international games**

15. The Committee enquired about the funding principles of the ASDF funding for Hong Kong athletes to prepare for and participate in international games and competitions (hereinafter the funding is referred to as preparation and participation funds), in particular whether setting performance targets on athletes' achievements at sports events was one of the funding criteria; and whether the funding amount would depend on details of the proposals, such as training programmes to be provided, in addition to the categories of competitions.

16. **Secretary for Home Affairs** and **Commissioner for Sports** said at the public hearings and **Secretary for Home Affairs** supplemented in his letter dated 1 June 2020 (*Appendix 9*) that:

- the main funding criterion for granting preparation and participation funds was the level of the events to be participated by the athletes concerned. As long as the level of the event or competition fell into one of the eligible multi-sports events (such as the Olympic Games, the Paralympic Games, the Asian Games, the Asian Para Games, the Summer Youth Olympic Games and the National Games) and the athletes were qualified to participate in that event or competition, the Administration would be prepared to provide the necessary funding to help the athletes prepare properly and increase their chance to perform their best at the event or competition. The setting of performance targets on athletes' achievements at multi-sports or team sports events was currently not one of the funding criteria;
- since 2016, the preparation and participation funds was extended to team sports in view of their potential for greater spectator appeal and public participation. Funding support was provided to Hong Kong teams preparing for or participating in world championships and inter-continental championships or equivalent events sanctioned by the international or regional sports federation concerned; qualifying events for world championships and inter-continental championships, and other international events where participation of which was a

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pre-requisite for the entry into world championships and intercontinental championships;

- for the assessment of the amount of funding support necessary, the applicant was required to submit the relevant training or competition programme, delegation list and a budget with itemized breakdown of the estimated costs involved; and
- the objective of providing preparation and participation funds was to increase the exposure of Hong Kong's athletes and enhance their competitiveness. The athletes' actual performance in the relevant major sports events was not one of the funding criteria and did not form part of the basis of assessment of the effectiveness of the preparation or participation funding support provided.

17. With reference to paragraph 2.7 of the Audit Report about the 28 applications approved under the preparation and participation funds, the Committee enquired about how performance targets were set and whether HAB and the Leisure and Cultural Services Department ("LCSD") had specific guidelines in place for applicants on the setting of performance targets.

18. **Secretary for Home Affairs** and **Commissioner for Sports** explained at the public hearings, and **Secretary for Home Affairs** and **Director of Leisure and Cultural Services** advised in their letters dated 1 June 2020 (*Appendices 9 and 10* respectively) that:

- NSAs were 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 varied significantly, it was not practical for HAB nor LCSD to draw up guidelines or set targets for applicants. The purpose of setting performance targets and reporting the achieved results was to facilitate the grantee for self-assessment rather than deciding the amount of fund to be granted; and
- the review on performance targets was expected to be completed by the end of June 2020. If some measurable or quantitative performance

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indicators were identified and considered suitable, the Administration would specify the requirements for grantees' compliance.

19. With reference to paragraph 2.27 of the Audit Report, the Committee enquired about the timetable to review the funding guidelines for the preparation and participation funds in respect of performance targets and whether the new guidelines would provide suggestions on the setting of more practical and achievable performance targets.

20. **Secretary for Home Affairs** advised in his letter dated 1 June 2020 (*Appendix 9*) that:

- HAB and LCSD were currently reviewing the guidelines on setting of performance targets and planned to complete the review by the end of June 2020;
- the Administration considered it useful to require the applicant to provide the projected achievements and report on the results with an assessment of the actual performance as this would be a useful tool for self-assessment by the applicant, as well as for the Administration to keep track of the development of the sport concerned; and
- the Administration would make clear that the projected achievements and actual results were not part of the funding criteria.

21. In reply to the Committee's enquiry about how HAB and LCSD could monitor whether the grantees used the funding approved under the preparation and participation funds in a value-for-money manner, **Secretary for Home Affairs** advised in his letter dated 1 June 2020 (*Appendix 9*) that:

- between 2014-2015 and 2018-2019, ASDF granted 22 applications for preparation funding support for major multi-sports games involving a total amount of \$53 million. During the same period, 23 applications from four team-only sports for preparation funding support involving a total amount of \$11 million had been granted; and
- in vetting of these applications, there were ceiling amounts for each eligible item stated in the training plan. Eligible items included

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expenses for flights and local transportation, accommodation, meals, medical services, employment of additional coaches, additional training at home and abroad, purchase of additional equipment and provision of on-field support. For applications for preparation funding support from team-only sports, there was an additional ceiling for the overall amount that could be granted. HAB and LCSD would monitor the use of the approved grants according to the capped ceiling amounts of eligible items.

22. With reference to paragraph 2.10 and Table 6 of the Audit Report on applications for the preparation and participation funds, the Committee asked whether there was any policy or mechanism governing the variances of significant amount or percentage between estimated and actual amounts of income as well as variances between estimated and actual amounts of expenditure. The Committee also sought details about the 24 cases with variances in income and/or expenditure in Table 6, including the one with a large variation of \$5.4 million.

23. **Secretary for Home Affairs** said at the public hearings, and **Secretary for Home Affairs** and **Director of Leisure and Cultural Services** supplemented in their letters dated 1 June 2020 (*Appendices 9 and 10* respectively) that:

- at present, there was no requirement for the applicants to report variances of significant amount or percentage between the estimated and actual amounts of income and those of expenditure. As the estimated expenditure was only the requested amount of subsidy, it was subject to revision by the applicant and vetting and approval by HAB/LCSD;
- the Administration considered it more appropriate to compare the approved expenditure and the actual expenditure;
- HAB would consider requiring the applicants to provide explanations for variances over 25% between the approved and actual expenditures in future applications. LCSD would modify the current report form for programmes under ASDF to require an explanation of variance of 25%. LCSD would work with HAB to draw up new programme report proforma by the end of June 2020; and



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- as for the case with the large variation of \$5.4 million, the variances were mainly due to a smaller delegation size which was 15% lower than the original estimate; and securing in-kind sponsorships for air-tickets, uniform, sportswear set and transportation of equipment after the budget was approved.

24. **Secretary for Home Affairs** and **Director of Leisure and Cultural Services** provided in their letters dated 1 June 2020 (*Appendices 9 and 10* respectively) details of the 24 cases in Table 6.

25. With reference to paragraph 2.12 of the Audit Report, the Committee enquired about the reasons for not formulating any guidelines on the scope of audit, i.e. items that were subject to audit examination, in respect of applications for the preparation and participation funds.

26. **Secretary for Home Affairs** and **Director of Leisure and Cultural Services** said at the public hearings, and **Secretary for Home Affairs** and **Director of Leisure and Cultural Services** supplemented in their letters dated 1 June 2020 (*Appendices 9 and 10* respectively) that:

- there were no specific guidelines on the scope of audit for ASDF applications. Most grantees of ASDF were NSAs which also received subsidies from the Sports Subvention Scheme. As part of the funding requirement under the Sports Subvention Scheme, NSAs were required to comply with, amongst other things, an Auditor's Guide as provided in the Handbook for NSAs. The Auditor's Guide specified that auditors should certify grantee's compliance with the procurement requirements and the Code of Conduct;
- since NSAs were familiar with the Auditor's Guide under the Sports Subvention Scheme, the Administration would revise the ASDF guidelines to make clear that auditors of ASDF grantees should follow the same requirements;
- with effect from 1 June 2020, HAB and LCSD would remind grantees to request their auditors to certify their compliance with the procurement requirements and the Code of Conduct in compiling the audited accounts of programmes under ASDF. HAB and LCSD

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would also follow up with the grantees if any non-compliance was spotted; and

- HAB and LCSD would explicitly state in the approval letter of programmes under ASDF to remind grantees to comply with the requirement.

27. According to paragraph 2.5 of the Audit Report, the grantee for the preparation and participation funds was required to submit the programme report and audited accounts within four months after the completion of a preparation programme (for preparation fund) or a sports competition (for participation fund). Paragraph 2.6 of the Audit Report stated that if a grantee failed to submit the programme report and/or audited accounts after the ultimate deadline (i.e. six months after the completion of preparation programme or the sports competition), the grantee should be liable to refund the ASDF grant, calculated as 1% of the approved grant amount for every month of further delay, until the grantee submitted the programme report and audited accounts. HAB/LCSD reserved the right to suspend processing further funding applications for any ASDF funding from the same grantee. The Committee asked about the number of refund cases handled by HAB and LCSD during the period 2015-2016 to 2018-2019.

28. **Secretary for Home Affairs** advised in his letter dated 1 June 2020 (*Appendix 9*) that during 2015-2016 to 2018-2019, there were two cases handled by HAB 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 of the two cases were listed in the letter. **Director of Leisure and Cultural Services** advised in his letter dated 1 June 2020 (*Appendix 10*) that during 2015-2016 to 2018-2019, LCSD handled five 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 of the five cases were listed in the above letter.

29. According to paragraph 2.17 of the Audit Report, for 6 out of 28 applications approved under the preparation and participation funds, the preparation programmes and sports competitions of which had been completed, despite that the delay in submission of programme reports and/or audited accounts was more than six months, the 1% charge under the enhanced measures had not been imposed. The Committee noted that Secretary for Home Affairs and Director for

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Leisure and Cultural Services had not responded to nor explained these six applications in the Audit Report. The Committee asked at the public hearings the reasons for not imposing the 1% charge for these six applications.

30. **Secretary for Home Affairs** and **Commissioner for Sports** said at the public hearings that the Administration exercised some flexibility in dealing with late submission cases and the 1% charge would not be imposed on all late submission cases.

31. The Committee further asked how such flexibility and discretion were exercised in that the 1% charge was not imposed on some late submission cases. **Director of Leisure and Cultural Services** explained in his letter dated 1 June 2020 (*Appendix 10*) that LCSD currently adopted an approach of counting calendar months instead of calendar days to calculate the deadline. For example, if an event was completed on 15 January, charges would only be imposed after 31 July which was the end of the sixth 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 applications and the reasons why they were not considered overdue were explained in the letter. **Secretary for Home Affairs** and **Director of Leisure and Cultural Services** confirmed in their letters dated 1 June 2020 (*Appendices 9* and *10* respectively) that there was no mechanism for exercising discretion to waive the 1% fee for late submission of programme reports and/or audited accounts.

32. With reference to Case 1 in paragraph 2.21 of the Audit Report, the Committee noted that a grantee was repeatedly late in returning unspent balances to the Administration in eight applications in the period 2016-2017 to 2018-2019. The Committee asked whether all unspent balances had been returned to the Administration, reasons for the delays and measures to address the situation.

33. **Secretary for Home Affairs** said at the public hearings and supplemented in his letter dated 1 June 2020 (*Appendix 9*) that:

- all applications concerned the same grantee. For the five applications which had not yet returned the unspent balances as at 31 October 2019, the grantee returned the unspent balance to the Administration in the period November 2019 to April 2020;

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- the delay was due to an oversight on verifying the audited accounts and returning of unspent balances, as well as changes of the handling officers in both HAB and the grantee during the relevant period. It took time for the new staff to familiarize themselves with the mechanism of ASDF. As the grantee had requested for adjustments to the unspent balances, it took a few more rounds of exchanges on how the unspent balances should be calculated before HAB and the grantee finally reached agreement on the amount;
- there was currently no sanction or penalty regarding delay in return of unspent balances in the guidelines. The reminders and warnings issued by HAB had insufficient deterrent effect;
- there were no other grantees who were repeatedly late for returning unspent balances in the period from 2014-2015 to 2018-2019; and
- HAB was reviewing the case with LCSD and would draw up guidelines on the sending of reminders, issuing warnings and consider introducing punitive measures for the late return of unspent balances. The review was expected to be completed by the end of June 2020.

34. With reference to paragraph 2.23 and Table 10 of the Audit Report, **Director of Leisure and Cultural Services** replied to the Committee's question at the public hearings that it took such a long time to issue letters requesting grantees to return unspent balances of the approved grant amount because of the lengthy process for vetting the eligibility of expenditure items for funding with grantees. The Committee sought details of the relevant workflow.

35. **Secretary for Home Affairs** provided the workflow of verification in his letter dated 1 June 2020 (*Appendix 9*). Two staff members of HAB were responsible for handling the verifications and the recovery of unspent balances from grantees as part of their duties. HAB would review the existing mechanism with LCSD and consider imposing penalties for delays in returning unspent balances. The relevant measures would be announced by the end of June 2020.

36. **Director of Leisure and Cultural Services** said at the public hearings and provided in his letter dated 1 June 2020 (*Appendix 10*) the workflow in LCSD. The administration work on funding application of programmes under ASDF was only

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part of the duties of LCSD staff concerned. There were 45 staff being involved for undertaking the administration work of programmes under ASDF. The current manpower was considered adequate for the tasks.

**C. Funding for international sports events**

37. With reference to Table 12 in paragraph 3.4 of the Audit Report, the Committee sought details of the matching grant, including the sports events funded by this grant.

38. **Commissioner for Sports** said at the public hearings and **Secretary for Home Affairs** advised in his letter dated 1 June 2020 (*Appendix 9*) that:

- before 2019, world championships, world class level events (such as world cup, one stop of the world series or world tour), inter-continental championships or equivalent events sanctioned or endorsed by the respective International Federation and/or listed on its event calendar might apply for matching fund under the "M" Mark system subject to a ceiling of \$6 million for each event; and
- in the 2018-2019 Budget, \$500 million was allocated for setting up of a new "Major Sports Events Matching Grants Scheme" to encourage the business sector to sponsor large-scale sports events, thereby providing athletes with more opportunities to compete in high-level competition on home ground. The Scheme was launched in April 2019. Key enhancement measures included increasing the ceiling of matching fund to \$10 million per MME and extending the coverage to exhibition matches or tournaments featuring world-class teams or players.

39. With reference to Table 13 in paragraph 3.5 of the Audit Report, the Committee asked about the information on the composition and membership of the Major Sports Events Committee ("MSEC"), the election of the Convenor and three other members of MSEC's Vetting Panel, as well as the system of declaration of interests for the Vetting Panel members.

40. **Commissioner for Sports** said at the public hearings and **Secretary for Home Affairs** advised in his letter dated 1 June 2020 (*Appendix 9*) that:

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- MSEC comprised 15 non-official members and five ex-officio members from HAB, LCSD, the Information Services Department, the Tourism Commission and SF&OC. The non-official members were appointed by Secretary for Home Affairs every two years;
- at the first MSEC meeting of each new term, members were invited to join the Vetting Panel. Vetting Panel members would then nominate and elect a Convenor among themselves. When an application for "M" Mark was received, the Convenor would call for a Vetting Panel meeting with five members, comprising the Convenor, one official member from HAB or LCSD and three Vetting Panel members according to the order of the list and subject to their availability. The Vetting Panel meeting would assess the application and make recommendations to MSEC for consideration; and
- MSEC adopted a one-tier declaration system. The Chairman of MSEC and Convenor of the Vetting Panel would invite members to declare interests at the beginning of each meeting.

41. With reference to paragraphs 3.5 to 3.7 of the Audit Report, the Committee asked about the reasons for adopting different assessment criteria between MMEs and Major Local International Events ("MLIEs").

42. **Secretary for Home Affairs** and **Director of Leisure and Cultural Services** explained in their letters dated 1 June 2020 (*Appendices 9 and 10* respectively) that the variances were due to significant differences in the scale and nature of the events under the two categories:

- MMEs were large-scale events (such as the Hong Kong Marathon and Hong Kong Sevens) that could attract a large number of spectators and participants including overseas visitors. These events had the potential to attract larger amount of sponsorship and a maximum matching funding of \$10 million could be granted and the assessment criteria for MMEs included economic impacts of the event and the possibility to secure private and business sector sponsorship; and
- MLIEs were of much smaller scale (such as Asian or major regional championships) which were not expected to generate substantial economic impact or attract large amount of sponsorship.

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43. In reply to the Committee's enquiry on the processing and scoring system for assessing MMEs and MLIEs, **Secretary for Home Affairs** and **Director of Leisure and Cultural Services** advised in their letters dated 1 June 2020 (*Appendices 9 and 10* respectively) that:

- for MMEs, assessment of the applications took place throughout the year. All applications would be scrutinized and vetted by the Vetting Panel with the support of the Secretariat in accordance with the vetting criteria and the scoring table for MMEs. The recommendations from the Vetting Panel would then be presented to MSEC and SC for endorsement and approval respectively. The vetting criteria and scoring table for MMEs were provided in Secretary for Home Affairs's letter; and
- for MLIEs, LCSD would issue invitation letters to NSAs and Sports Organizations under LCSD Sports Subvention Scheme in August/September every year for submission of applications in the coming three years. All applications would be scrutinized and vetted by the Vetting Committee for Sports Subvention<sup>5</sup> in accordance with the vetting criteria and the scoring table for MLIEs. The recommendations from the Vetting Committee for Sports Subvention on applications would then be submitted to HAB for approval. An approval-in-principle would be given to NSAs/Sports Organizations. NSAs/Sports Organizations were 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 would then be submitted to the Vetting Committee for Sports Subvention for endorsement and HAB for approval. The scoring system for MLIEs was provided in the letter of Director of Leisure and Cultural Services.

44. **Secretary for Home Affairs** also supplemented in his letter dated 1 June 2020 (*Appendix 9*) that the MSEC Secretariat would conduct briefing for all new MSEC members and provide each of them with a copy of the application guidelines. In addition, the Secretariat would remind the Vetting Panel members of the vetting criteria before assessing the "M" Mark applications at the Vetting Panel meetings.

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<sup>5</sup> The Vetting Committee comprises an Assistant Director of LCSD and six LCSD staff (i.e. one Senior Treasury Accountant, one Senior Executive Officer and four Chief Leisure Managers).

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45. With reference to Case 2 in paragraph 3.9 of the Audit Report, the Committee asked the Administration to provide the length of delay, if any, in the submission of programme reports and audited reports by the concerned NSAs for Events C and D.

46. **Director of Leisure and Cultural Services** said at the public hearings and advised in his letter dated 1 June 2020 (*Appendix 10*) that:

- the original requirement was that the audited report and programme report should be submitted within four months after the end of the event. An enhancement (see paragraph 27 above for more details) had been made that it was acceptable for grantee to submit the reports within six months and they would not be considered as late submission;
- for Event C, the end date of event was 28 May 2017. The grantee submitted audited report and programme report on 2 November 2017 and 25 September 2017 (both within six calendar months) respectively. There was no late submission of report;
- 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) and there was no late submission of report; and
- due to the above, scores were still awarded for the grantee under the sub-criterion "timeliness in submission of programme report and audited report before the deadline".

47. In reply to the Committee's enquiry on the nature of MLIE A and MLIE B, two events with significant surplus amounts in Table 17 in paragraph 3.25 of the Audit Report, **Director of Leisure and Cultural Services** explained in his letter dated 1 June 2020 (*Appendix 10*) that:

- MLIE A was an Asian Olympic Qualification Tournament (Table Tennis). The Vetting Committee for Sports Subvention 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



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in the form of matching fund from ASDF to the event. The event also attained significant amount of income mainly from sponsorship, entry fee and advertising fees, TV License fees and accommodation charge to participants that contributed to the significant surplus amount; and

- MLIE B was an Asian Junior Team Championships (Squash). The Vetting Committee for Sports Subvention 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 ASDF to the event and approved the LCSD subvention on notional venue charges at \$45,666. The event also attained significant amount income from sponsorship and athletes' entry fee that contributed to the significant surplus amount.

48. With reference to Table 15 in paragraph 3.14 of the Audit Report, the Committee noted that more events under MMEs and MLIEs (over 75%) experienced delays in submission of programme reports and audited accounts than those under the Local International Events, and asked whether the Administration would conduct a review on the stipulated timing for the submission of programme reports and audited accounts by grantees under different categories of events. **Secretary for Home Affairs** replied at the public hearings and supplemented in his letter dated 1 June 2020 (*Appendix 9*) that HAB and LCSD were considering the adjustment of timelines for the submission of programme reports and audited accounts by grantees. The review was expected to be completed by the end of June 2020.

#### **D. Funding for football development**

49. In reply to the Committee's enquiry about the Administration's policy on football development in Hong Kong, **Secretary for Home Affairs** said at the public hearings and supplemented in his letter dated 1 June 2020 (*Appendix 11*) that the policy objectives of the Administration were to promote sports in the community, support elite sports development and promote Hong Kong as a centre for major international sports events. HKFA played an important role in various Government-funded football development programmes, such as those under the Sports Subvention Scheme, the Project Phoenix and FYSP. A Football Training Centre at Tseung Kwan O was managed by HKFA. Separately, LCSD had implemented the School Sports Programme which covered 90% of the schools in Hong Kong and football was one of the 47 sports under the Programme. HAB had been providing funding for the District Football Funding Scheme ("DFFS"). The

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Administration had also been providing public football pitches (61 11-a-side natural turf and artificial turf pitches, 21 7-a-side turf pitches and 234 hard-surface pitches of 5-a-side or 7-a-side) in different districts in Hong Kong to support football development.

50. The Committee enquired about HAB's monitoring mechanism on the work of HKFA in fostering the development of local football through the Football Task Force ("FTF"). In particular, whether this included the governance and daily administrative work of HKFA.

51. **Secretary for Home Affairs** and **Commissioner for Sports** said at the public hearings and **Secretary for Home Affairs** supplemented in his letter dated 15 May 2020 (*Appendix 12*) that:

- the Administration had all along respected the principles of autonomy in organization, management and operations of sports, and would not participate in the internal governance or daily operations of HKFA. HKFA management and HKFA Board had the responsibility for daily operation and oversight respectively;
- FTF was set up by HAB in May 2010 to assist HKFA in implementing the various recommendations under the Project Phoenix. Its terms of reference was to advise Secretary for Home Affairs on matters relating to the development of football in Hong Kong, in particular to monitor the progress of HKFA in implementing its FYSP against the agreed targets and indicators; monitor and advise on the allocation of funding earmarked for HKFA to implement FYSP; exchange views with stakeholders on the further development of football in Hong Kong; and advise on any other strategic matters relating to the further development of football in Hong Kong. HAB would also consult FTF on HKFA's annual budget application and consider the reasonableness of the resources sought by HKFA;
- according to the funding agreement on FYSP signed between the Administration and HKFA, HKFA must allow the Government and Director of Audit to have unhindered access and to enquire, examine and audit the records and accounts in relation to the funding and the management and control procedures, and follow and act upon any corruption prevention advice rendered by the Independent Commission

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Against Corruption and the Government. HKFA must adopt and comply with the Code of Conduct, accounting and payment procedural guidelines and procurement guidelines to avoid conflict of interest and ensure compliance with procedures. The funding agreement also required HKFA to submit to the Administration an annual account and an annual budget application;

- in the funding agreement, performance indicators and targets were set to facilitate the Administration's monitoring of HKFA's implementation of FYSP. It was stipulated in the agreement that HKFA should submit half-yearly reports on the progress against these performance indicators and targets. According to the report in March 2020, HKFA ultimately achieved 23 of the 33 final indicators and targets in the funding agreement. Details were in the letter; and
- the mid-term review under FYSP completed in 2018 indicated that the performance of HKFA in various areas had improved but the performance in some areas, including the international ranking of the Hong Kong Team, the organization and match attendance of the Hong Kong Premier League ("HKPL"), HKFA's communication and relationship with stakeholders, and its reliance on public funding, still required improvement.

52. According to **Commissioner for Sports** at the public hearings, the remedial measures taken by HKFA against under-achievements in the four areas as mentioned in the last paragraph were not quite effective. The Committee sought details of the follow-up actions taken by HAB.

53. **Secretary for Home Affairs** advised in his letter dated 22 June 2020 (*Appendix 13*) that HKFA was working on measures to address the four areas with details set out in the letter. HAB completed the final review on FYSP in 2019. The review findings indicated that the measures adopted on the above four areas had not brought any notable improvements.

54. As LCSD also provided subventions for HKFA under the Sports Subvention Scheme, the Committee asked how LCSD determined the subvention amount. **Director of Leisure and Cultural Services** explained in his letter dated 26 May

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2020 (*Appendix 14*) that LCSD would take into account the following factors in determining the amount of subvention to HKFA under Sports Subvention Scheme:

- staff strength and past expenditure pattern;
- performance of HKFA against the targets set for the last financial year, including HKFA's effectiveness in managing programmes and administering subvention; and
- practicability and effectiveness of the annual plan and the mid-term development plan submitted by HKFA.

55. As FYSP was concluded on 31 March 2020, the Committee asked whether a new five-year plan would be prepared and implemented for football development. **Secretary for Home Affairs** and **Commissioner for Sports** said at the public hearings and **Secretary for Home Affairs** supplemented in his letter dated 1 June 2020 (*Appendix 11*) that after the conclusion of FYSP, HKFA was still working to finalize its next five-year strategic plan due to the epidemic. The plan would soon be presented to its Board of Directors for consideration. Upon receipt of the official documents on the new five-year strategic plan, HAB would handle the funding application and consult FTF expeditiously.

56. In reply to the Committee's enquiry about the actions taken/to be taken by HAB for better monitoring of the corporate governance of HKFA, **Secretary for Home Affairs** advised in his letter dated 22 June 2020 (*Appendix 13*) that HAB wrote to HKFA on 8 May 2020 requesting it to submit an action plan on how it intended to address the issues identified in the Audit Report for FTF's consideration. When handling the funding application of HKFA's new strategic plan, HAB would consider the HKFA's action plan and consider setting performance targets related to HKFA's governance to monitor the progress of HKFA's follow-up and implementation of relevant recommendations.

57. As for the other measures to improve the governance of HKFA, **Secretary for Home Affairs** advised at the public hearings that HAB had earmarked a time-limited funding of \$5 million per year for five years from 2020-2021 to 2024-2025 for conducting a review to examine the operation of all NSAs (including HKFA) and their internal monitoring mechanism. Given the leading role of SF&OC in the sports sector and that all NSAs were its member associations, HAB

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had engaged SF&OC to take charge of the review. The Committee requested for further details of the plan in using the funding.

58. **Secretary for Home Affairs** supplemented in his letter dated 1 June 2020 (*Appendix 11*) that:

- according to the proposal submitted by SF&OC, it would establish a steering committee comprising independent professionals to oversee the review. In addition, a dedicated team of full-time staff would be recruited to carry out the various relevant tasks of the review including:
  - (a) examining the operation of all NSAs, including the conduct of an audit on the following, with recommendations:
    - (i) Articles of Association;
    - (ii) composition of executive boards and election mechanism;
    - (iii) selection mechanism of athletes for participation in international competitions and the appeal mechanism;
    - (iv) membership application mechanism;
    - (v) financial reporting and auditing compliance;
    - (vi) progress of implementing the best practices as set out in the "Best Practice Reference for Governance of NSAs — Towards Excellence in Sports Professional Development" by the Independent Commission Against Corruption; and
    - (vii) status of compliance with the Olympic Charter, Code of Ethics of the International Olympic Committee and the Articles of Association of SF&OC;
  - (b) formulating a code of governance for compliance by all NSAs;
  - (c) arranging regular thematic seminars for serving and new office bearers and staff of NSAs;

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- (d) implementing the recommendations for improvement and monitoring the compliance by NSAs; and
- (e) compiling an annual report on the progress of the review and implementation of the recommendations.

59. Noting from Figure 2 in paragraph 4.2 of the Audit Report that the consultancy report recommended in 2009 that HKFA should recruit qualified and professional officers for a transformation process, the Committee asked the Administration and HKFA about the funding support under the Project Phoenix and FYSP earmarked to improve the governance and management of HKFA, details of new staff positions created for these two purposes, and the Administration's way to monitor that HKFA had made improvements in its governance and management.

60. **Secretary for Home Affairs** advised in his letter dated 1 June 2020 (*Appendix 11*) that the reform of the HKFA's organizational structure was a core part of Project Phoenix and some of the measures implemented under the plan included:

- establishing a new organizational structure and creating 27 positions. Up to March 2015, the total amount of funding provided to HKFA for implementing the Project Phoenix amounted to \$55.45 million, of which around \$48 million was used to create the 27 positions; and
- setting performance targets on improving its governance under Project Phoenix in its funding agreement with HAB. For example, HKFA had updated its Articles of Association and adopted a new structure for its Board of Directors. HKFA had also set three performance targets and indicators in improving its governance under FYSP. They included electing a minimum of four independent (non-club-linked) directors to the Board of Directors and reviewing the constitution bi-annually, while continuing to work towards achieving its indicator on expanding its membership.

61. **Chairman, HKFA** said at the public hearings and supplemented in his letter dated 1 June 2020 (*Appendix 15*) that of the 27 positions, the duties of some posts, such as Chief Executive Officer, Head of Corporate Governance, Financial Controller, Internal Control Manager and Human Resources Manager included improving the governance and management of HKFA.

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62. In response to the Committee's enquiry on how the non-club-linked directors in HKFA were selected to ensure their representativeness, **Chairman, HKFA** advised in his letter dated 19 June 2020 (*Appendix 16*) that there were five non-club-linked directors in the HKFA Board according to the existing set-up. All directors (club-linked and non-club-linked) positions were appointed by election and candidates must be nominated by voting members. Non-club-linked directors were required to declare not to 'link' (usually defined as not holding any official position and/or interest) with any member clubs. An independent Electoral Committee would be responsible for vetting the candidature.

63. With reference to Table 23 in paragraph 4.8 of the Audit Report, the Committee sought explanation on the low attendance of some members of HKFA's Board and committees. **Chairman, HKFA** and **Mr Paul WOODLAND, Chief Executive Officer, HKFA Secretariat** explained at the public hearings that Member A in Table 23 was the President of HKFA who represented HKFA in international summits, and he just chaired the Assembly and General Meetings while the Chairman chaired the Board meetings. It was a practice that the President did not attend regular Board meetings.

64. On the measures to encourage the attendance of HKFA's Board and committee meetings, **Chairman, HKFA** and **Chief Executive Officer, HKFA Secretariat** said at the public hearings and supplemented in his letter dated 1 June 2020 (*Appendix 15*) that the following proposed measures and timeline were initial ideas subject to final approval of the Board:

- to propose a consolidated calendar for HKFA meetings at the start of each season for the Board's adoption and implementation, with regular meeting schedules and a regular pattern of the day, time and venue for meetings;
- to enhance communications with members;
- to draft "HKFA Organisational Regulations" for Board's adoption and implementation;
- to review time of holding meetings, including outside office hours;
- to report attendance of Board and committee members at meetings in HKFA Annual Report; and

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- to adopt a policy for non-attendance e.g. termination of appointment for attendance lower than a rate to be agreed by the Board of Directors.

**Chairman, HKFA** supplemented in his letter dated 19 June 2020 (*Appendix 17*) that "HKFA Organisational Regulations" would be proposed to the Board of Directors for consideration. The General Secretary office would be responsible for preparing the regulations upon the endorsement of the Board. Timeline for completion and approval would be made available within 2020.

65. With reference to Table 24 and paragraphs 4.13 to 4.15 of the Audit Report, the Committee sought information on the Audit Committee, a standing committee of HKFA, and its status during the period from July 2015 to 30 June 2019 (the end of the football season 2018-2019) as it was stated in the Audit Report that the Committee consisted of one member (the Chairman) only from July 2015 onwards.

66. **Secretary for Home Affairs** provided the terms of reference of the Audit Committee in his letter dated 1 June 2020 (*Appendix 11*) and the terms of reference was extracted in *Appendix 18*.

67. **Chairman, HKFA, Chief Executive Officer, HKFA Secretariat, and Mr Vincent YUEN Mun-chuen, General Secretary, HKFA Secretariat** explained at the public hearings and **Chairman, HKFA** supplemented in his letter dated 1 June 2020 (*Appendix 15*) that:

- the "Chairman" of the Audit Committee referred to in the Audit Report was in fact the Convenor of the Audit Committee. At the first Board meeting of the football season 2015-2016 held on 6 July 2015, a Director was appointed the "Convenor" of the Audit Committee. There was misunderstanding because the minutes of that meeting named the appointed director of all committees as "Convenor/Chairman" without further differentiation nor elaboration;
- a convenor would only be responsible for: (a) nominating committee members for Board's appointment and (b) a bridge for communication between the Board and the committee which consisted of only independent (non-Board Member) chairman and members, such as the Audit Committee, but without the rights of a chairman including: (a) calling, attending and conducting a meeting and (b) voting; and



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- the Audit Committee was not set up during the period due to personal and health reasons of the Convenor.

68. In response to the Committee's enquiry about whether HKFA had given comments on paragraph 4.13 and Table 24 of the draft Audit Report, **Chairman, HKFA** advised in his letter dated 19 June 2020 (*Appendix 17*) that the Corporate Service Department was responsible for reading the contents of the paragraph and the table. HKFA's comment was provided to HAB for consolidation and Note 23 to paragraph 4.15 was added.

69. In reply to the Committee's enquiry about whether HKFA Secretariat had drawn the attention of the Board to the fact that the Audit Committee was not formed from July 2015 to June 2019, **Chairman, HKFA** said at the public hearings and supplemented in his letters dated 1 and 19 June 2020 (*Appendices 15 and 16* respectively) that:

- HKFA Secretariat did draw the Board's attention that the Audit Committee was not formed in the terms 2015-2017 and 2017-2019. The Secretariat had reported to the Board that no membership was confirmed for the Audit Committee at the meetings on 7 December 2015, 1 February 2016 and 5 April 2016. In the 2017-2019 term, the Secretariat twice presented membership list (proposed and adopted) to the Board's attention (but without highlighting) and discussion at the meetings on 17 July and 9 October 2017. However, HKFA accepted that HKFA Secretariat should have been more forceful to inform the Board; and
- although the Audit Committee was not formed, external audit company was appointed to carry out internal audit exercise services.

70. As there was clear differentiation between the responsibilities of a convenor and chairman (see paragraph 67 above), the Committee asked whether the Board had discussed and decided their respective responsibilities. **Chairman, HKFA** replied in his letter dated 19 June 2020 (*Appendix 17*) that there was mutual consent on the responsibilities of a convenor and chairman at Board meeting but no written record could be found.

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71. The Committee referred to the statement in HKFA Annual Report 2016-17 that "[t]he accounts of the HKFA are endorsed by the Finance Sub-committee and Audit Committee, and subsequently approved by the Board" (*Appendix 19*) and sought confirmation from HKFA about the accuracy of this sentence as the Audit Committee was not set up in this period.

72. **Chairman, HKFA** and **General Secretary, HKFA Secretariat** explained at the public hearings and **Chairman, HKFA** supplemented in his letter dated 1 June 2020 (*Appendix 15*) that:

- HKFA's Annual Report was a publicity material prepared for the consumption of HKFA voting and non-voting members only, but was also made available publicly on HKFA's website to interested persons;
- it was confirmed that all the audited accounts from the football season 2013-2014 onwards had already been approved by both the Finance Sub-Committee and the Board;
- the Audit Committee was established in the football season 2013-2014. The annual audited financial statements for the year ended 30 June 2014 was presented to the Audit Committee and was passed at a meeting on 13 February 2015. As a result, there was a statement shown in the Annual Report 2013-14 that "The accounts of HKFA are endorsed by the Finance Sub-Committee and Audit Committee, and subsequently approved by the Board";
- the annual accounts 2014-2015 to 2017-2018 of HKFA were endorsed by the Finance Sub-committee but not by the Audit Committee prior to Board approval because the Audit Committee was not formed. The statement concerned in the Annual Report 2016-17 inadvertently mentioned the Audit Committee. In future, HKFA would be more careful and accurate on the statements made on Annual Report; and
- in 2019, a new Audit Committee had been formed. The annual audited financial statements of 2018-2019 had been endorsed by the Audit Committee in February 2020.

73. With reference to the terms of reference of the Audit Committee (*Appendix 18*) and the reply from **Chairman, HKFA** at the public hearings, the

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Committee sought the HKFA's rationale on adopting a more restrictive practice that a director of the HKFA Board could not be the Chairman nor member of the Audit Committee, which was more restrictive than that stated in the terms of reference and whether this was discussed and endorsed by the Board.

74. **Chairman, HKFA** explained in his letter dated 19 June 2020 (*Appendix 16*) that the HKFA Board did not see it inappropriate to adopt a more restrictive appointment policy for the Audit Committee, which was imperatively seen to be independent and impartial. Any direct involvement of directors in the work of the Audit Committee had a potential conflict of interest and this explained the understanding why directors should not be the Chairman nor members of the Audit Committee. Minutes of HKFA Board meeting did not usually show common understanding by the time a decision was made that no written record could be found.

75. With reference to the terms of reference of the Audit Committee (*Appendix 18*), the Committee noted that the Chairman of the Finance and Strategy Committee should play the role as the Convenor and sought explanation on the reasons for not following this practice in the football seasons 2015-2016 to 2018-2019.

76. **Chairman, HKFA** and **General Secretary, HKFA Secretariat** explained at the public hearings and **Chairman, HKFA** supplemented in his letter dated 19 June 2020 (*Appendix 16*) that the practice of appointing the Chairman of the Finance and Strategy Committee as the Convenor of the Audit Committee was followed in the football seasons 2014-2015 and 2019-2020 but not for the terms 2015-2017 and 2017-2019. This requirement was not made aware of by the group of newly-elected directors in 2015 when working out the division-of-labour in an informal setting, nor was the Secretariat in a position to advise without being involved in this kind of pre-meeting of directors. The appointment list was presented and officially endorsed by the Board at its first meeting of the football season 2015-2016 with a director other than the Chairman of the Finance and Strategy Committee appointed the Convenor of the Audit Committee.

77. The Committee noted from Article 41 of the Articles of Association of HKFA (*Appendix 20*)<sup>6</sup> that "[a]uditors shall be appointed by the Assembly at the

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<sup>6</sup> Source: The website of HKFA: <https://www.hkfa.com> (last accessed on 9 July 2020)

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AGM [Annual General Meeting] and shall audit the accounts approved by the Finance and Strategy Committee" but as stated in paragraph 71 above, the accounts were only endorsed by the Finance Sub-committee. The Committee asked whether such delegation of power and responsibility was discussed and endorsed by the HKFA Board.

78. **Chairman, HKFA** and **General Secretary, HKFA Secretariat** explained at the public hearings and **Chairman, HKFA** supplemented in his letter dated 19 June 2020 (*Appendix 16*) that:

- the split of the works of the Finance and Strategy Committee into Finance Sub-committee and Strategy Sub-committee was proposed by the then Committee Chairman at the Board meeting on 2 August 2011;
- the rationale was that finance and strategy were two very diverse matters and it was inappropriate to invite outside experts to serve under both purviews. The proposal was that the Finance and Strategy Committee should compose of only core members (Chairman, ex-officios, directors), whereas outside experts would be invited to join the sub-committees of their discipline and interest only. Most of the meetings of the two sub-committees were arranged to be held on the same day one after the other so that the core members could take part in both sessions while the sub-committee members would attend one of their relevance;
- the above proposal was not documented in details in the meeting minutes but only recorded in form of the membership list annexed to the minutes; and
- for HKFA directors, they had never come down to detailed requirements of the Articles of Association and the Finance and Strategy Committee operated in such a way of splitting up the finance-related matters and strategy-related matters to be handled by two sub-committees. There might be a missing formality in having the meetings of the Finance and Strategy Committee as only meetings of the sub-committees were held. However, the accounts did go through the three-tier scrutiny, i.e. committee-board-general meeting.

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79. According to paragraphs 4.16 to 4.18 of the Audit Report, HKFA replied to Audit that the Marketing and Communications Committee had held meetings in the football seasons 2014-2015 to 2018-2019 but the minutes, other than those for the meetings held in April, May and June 2019, could not be located. The Committee also noted from the letter provided by **Chairman, HKFA** dated 1 June 2020 (*Appendix 15*) that the Marketing and Communications Committee did not hold a meeting from July 2014 to June 2015 and from January 2016 to March 2019. The Committee queried how the Marketing and Communications Committee could discharge its functions if no meetings were held.

80. **General Secretary, HKFA Secretariat** explained at the public hearings and **Chairman, HKFA** supplemented in his letter in his letters dated 1 and 19 June 2020 (*Appendices 15 and 21* respectively) that as the relevant Chairperson was abroad for a long period of time due to personal reasons, the relevant Chairperson gave no instruction to call meetings during 2014-2015. Given that no meetings were held, no further inputs could be provided from the committee members. Nonetheless, the Marketing and Communications Department still operated upon the Chief Executive Officer's instructions during the mentioned period of time. A new Chairperson was appointed at the start of the football season 2015-2016 for the 2015-2017 term. After searching the HKFA server, a document entitled "Notes of the 2015-16 Marketing and Communications Committee Meeting on 5 November and 9 December 2015" was found. It was believed that the Marketing and Communications Committee had held two meetings in this term.

81. Regarding the agenda of a meeting of the Marketing and Communications Committee held in 2017 as mentioned in paragraph 4.18 of the Audit Report, **Chairman, HKFA** explained in his letter dated 19 June 2020 (*Appendix 21*) that an agenda was found without any details of the meeting (date, time and venue) mentioned. The 'agenda' included two items, namely, Briefing session on Marketing plan for 2017-18 BOC Life HKPL and New appointment of member of HKFA Marketing and Communications Committee. The same content was found in a report submitted to the Board at the meeting held on 9 October 2017.

82. With reference to paragraphs 4.24 to 4.26 of the Audit Report, the Committee asked about the guidelines for recruitment exercises to handle applications received after deadlines or not sent to the designated recipients and whether any enhancements/revisions had been made to guidelines to deal with these cases.

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83. **Chairman, HKFA** explained in his letter dated 1 June 2020 (*Appendix 15*) that:

- the existing Staff Recruitment Policy and Procedures did not specifically list out the procedures or approving authority where appropriate on handling applications received after deadlines or not sent to the designated recipients; and
- existing practices addressing the concerned areas had been adopted under special circumstances, e.g. a vacant position did not have sufficient number of applicants meeting the minimum requirements after repeated job postings, the time and cost effectiveness of continued reposting the job, the level of skillset required for the position and the limited supply of the talents in the labour market. The hiring manager was required to provide justifications for accepting the applications and to seek proper approval if warranted.

84. According to paragraph 4.26 of the Audit Report, Audit noted that the revised Staff Recruitment Policy and Procedures did not specifically address the inadequacies relating to applications received after deadlines or not sent to the designated recipients. The Committee asked about the reasons for not addressing these inadequacies in the HKFA's review on the Staff Recruitment Policy and Procedures in 2018.

85. **Chairman, HKFA** explained in his letter dated 1 June 2020 (*Appendix 15*) that:

- HKFA engaged an external audit firm to review its Staff Recruitment Policy and Procedures from October to November 2018. The policy was then refined with the necessary guidelines to address the interview panel arrangements and the approval process for the forthcoming recruitment exercises of the three senior management posts, namely the Chief Executive Officer, Head Coach and Technical Director at the time. The Staff Recruitment Policy and Procedures were revised and endorsed by the Board in February 2019;
- handling late applications and applications not sent to designated recipients had not been specifically addressed in the external audit review; and

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- some specific guidelines to address the concerned inadequacies in regard to dealing with late applications and when applications not sent to the designated recipients would be an agenda item for discussion at the coming Organisational Development Committee meeting and recommendations would be presented to the Board of Directors.

86. With reference to paragraph 4.28 of the Audit Report, the Committee enquired about the guidelines in respect of declarations of conflicts of interest in recruitment exercises.

87. **Chairman, HKFA** explained at the public hearings and supplemented in his letter dated 1 June 2020 (*Appendix 15*) that:

- the existing HKFA Code of Conduct contained the abridged guidelines in respect of the declarations of conflicts of interest for recruitment and all staff members were required to strictly follow. The Code of Conduct stipulated that: "Directors and staff members are in the best position to decide or not there is a conflict of interest warranting declaration. If in doubt, it is prudent for the director or staff member to seek clarification from the Board or supervisor respectively";
- the following relationships for which a declaration should be made had been stated in the Code of Conduct: "One of the candidates under consideration in a recruitment or promotion exercise is a family member, a relative or a close personal friend of the staff member involved in the process"; and
- under the current practice, the hiring manager was required to indicate whether he/she personally knew the applicants applying for the position when he/she filled in the shortlisting record. A form confirming the composition of interview panel needed to be approved by the approving authority for the interview arrangement. All members of the interview panel were required to make their declarations of interest by filling a declaration form for handling conflicts of interest.

88. According to paragraph 4.38 of the Audit Report, quite a number of complimentary tickets for some matches were not used. The Committee sought

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details on the existing mechanism for HKFA to distribute complimentary tickets and whether reviews would be conducted on the use of complimentary tickets in order to adjust the allocation channels and proportion to boost attendances.

89. **Chairman, HKFA** explained in his letter dated 15 May 2020 (*Appendix 22*) the mechanism in allocating the complimentary tickets. **Chairman, HKFA** further said in his letter dated 1 June 2020 (*Appendix 15*) that no official/comprehensive study on complimentary tickets had been carried out. For the international matches, HKFA had records of those complimentary tickets distributed and could carry out study on the information in order to understand more and review the distribution list.

90. With reference to Table 31 in paragraph 4.40 of the Audit Report, the Committee sought the reasons for the general decrease in self-generated incomes of HKFA, in particular gate receipts and sponsorship, from the football seasons 2014-2015 to 2017-2018, the difficulties encountered by HKFA in increasing such incomes, and measures to address them.

91. **Chairman, HKFA** and **Chief Executive Officer, HKFA Secretariat** said at the public hearings and **Chairman, HKFA** advised in his letter dated 1 June 2020 (*Appendix 15*) that:

Reasons for the general decrease in gate receipts

- the level of the local matches might not be high enough to attract more spectators to go into the stadium to support the games;
- over the four football seasons from 2014-2015 to 2017-2018, 82% of HKFA gate receipts were generated from HKFA major international matches/exhibition matches and Hong Kong team matches held in Hong Kong. The remaining 18% of HKFA gate receipts were generated from HKPL, cup matches, sanction fees and levies. HKFA only received 5% of the gate receipts of HKPL and matches. HKFA would rely heavily on international competitions and exhibition matches of high level and quality to attract higher attendance rates and generate more gate receipts for HKFA. However, the level and quality of international competitions depended on the draw results and was out of HKFA's control. The years with a smaller number of



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quality international matches held in Hong Kong resulted in the lower gate receipts generated;

Reasons for the general decrease in sponsorship

- potential sponsors took into consideration the market value and positive branding image that HKFA and local football could bring. HKFA must focus on being a positive brand for sponsors to be associated;
- HKFA lost some secondary sponsors and individual sponsors, especially after the momentum of 2015 World Cup Qualifier Hong Kong vs China;
- the cash sponsorship amount had been relatively high for some potential sponsors, for example, the standard package of one local cup competition, i.e. FA Cup, was currently \$300,000 in order to cover most fee of professional cup matches;
- sponsors interested in football might choose to support HKPL teams instead of HKFA because of the different objectives and marketing strategies of the sponsors. Currently many HKPL teams were supported by commercial sponsors and some of them had increased their investments substantially in recent years;
- HKFA had been receiving sponsorship in goods and kinds. From the 2014-2015 to 2019-2020 financial years, the amount of non-cash sponsorship ranged from \$10.6 million to \$12.1 million;

Measures to increase sponsorship

- strengthening marketing to proactively retain existing sponsorship and solicit new sponsorship, as well as developing an effective sponsorship sales strategy;
- targeting sponsorship that lasted longer and sponsors that would engage in multi-matches in order to create a sustainable financial situation;
- revising sponsorship strategies that allowed lower investment requirement and/or secondary sponsors to generate more sponsorship;

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- creating more opportunities for advertising and brand exposure including enhancing the technology such as LED stadium advertising;
- utilizing the opportunities from government matching grants in order to diversify and strengthen the financial sources of HKFA;
- forming a working group under the HKFA Secretariat to work on a timeline which would be passed to the Marketing and Communications Committee to review;

Measures to increase the gate receipts

- increasing the number of Hong Kong Representative Team friendly matches;
- putting all the Hong Kong Representative Team matches at the Hong Kong Stadium rather than Mong Kok Stadium starting from the football season 2020-2021. HKFA must make effort to market and promote the international matches. The Hong Kong Representative Team should develop a "home venue" at the Hong Kong Stadium;
- making effort to market and promote HKPL from the football season 2020-2021 to rebrand and raise the image of the League and the clubs. HKFA would closely cooperate with LCSD to explore various proposals on marketing activities and initiatives to facilitate HKPL clubs;
- supporting HKPL clubs to develop a fan base within the catchment area of the stadium, including residence and surrounding schools with marketing and promotion campaigns with the objective of increasing attendance and therefore gate receipts; and
- changing the current stadium/sports ground assignment in the Premier Division to a minimum period of three years instead of the current practice of just one year to allow the clubs time to build up a fan base around the stadium location.

92. Noting the views that the level of local football should be raised in order to attract more spectators, the Committee asked for information on the highest ranking achieved by the Hong Kong men's football team in the world ranking of the

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Fédération Internationale de Football Association as well as a brief history of the change in the ranking. **Chairman, HKFA** said in his letter dated 1 June 2020 (*Appendix 15*) that the highest ranking of the Hong Kong's football team was 90 (out of 181 countries/territories) in February 1996. Hong Kong ranked 103 (out of 167) in August 2013 and the latest ranking in April 2020 was 143 (out of 211).<sup>7</sup> Significant changes to the calculation method were made in 1999 and 2006, and the rankings in 1996 and 2020 were not directly comparable.

93. According to paragraph 4.53 of the Audit Report, HKFA could not provide any explanations for the discrepancies between the amounts of sponsorship and advertising gross revenue in 2017-2018 and 2018-2019 as reported in the half-yearly progress reports and the amounts provided by HKFA to Audit in August 2019. The Committee sought an explanation on the discrepancies.

94. **Chairman, HKFA** said in his letter dated 1 June 2020 (*Appendix 15*) that at the time of submission of the half-yearly reports to HAB, the figures were based on preliminary figures on hand. It was not unusual to adjust the figures after the submission of half-yearly reports or when errors were discovered. The breakdown submitted to Audit in August 2019 included all the subsequent adjustments and resulted in the discrepancies. The time intervals of the two sets of figures were also different.

95. With reference to Table 39 in paragraph 4.58 of the Audit Report, the Committee requested HKFA to explain in detail the reasons for obtaining no quotations for each of the five cases.

96. **Chairman, HKFA** provided in his letters dated 1 and 19 June 2020 (*Appendices 15 and 17* respectively) details of five cases. In most cases, the responsible staff considered that a sole supplier/service provider was identified but the justifications had not been recorded. With the enhancement of the Procurement Policies and Guidelines made in October 2018, all the procurement cases requiring an exemption from the procurement procedures, including single quotation, should provide a full justification with a special approval from the designated approving authority/person holding a higher office. The Procurement Policies and Guidelines were first circulated to all staff through email in October 2018, and once in the

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<sup>7</sup> Source: <https://www.fifa.com/fifa-world-ranking/associations/association/hkg/men/>

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subsequent years. In future, HKFA would arrange seminars/meetings and other training for procurement staff to raise their awareness and knowledge on the Procurement Policies and Guidelines and require staff to strictly follow the laid-down procedures.

**E. Funding for other sports programmes and schemes**

97. With reference to paragraph 5.11 of the Audit Report, the Committee noted that nine teams did not achieve the performance targets in the 2018 Asian Games under the Five-Year Development Programme for Team Sports and asked how the teams would prepare so that they could achieve the performance targets in the next Asian Games in 2022. **Secretary for Home Affairs** and **Commissioner for Sports** explained at the public hearings that the Programme was launched in January 2018 when the teams for the 2018 Asia Games had been formed. Under the Programme, venues and resources for recruiting coaches and supporting personnel would be provided to the teams to devise and implement a five-year training plan with a view to improving the performance of the relevant team sports in the 2022 Asian Games.

98. The Committee sought the policy objective(s) of DFFS. Apart from the four performance targets listed out in paragraph 5.19 of the Audit Report, namely, the average number of training hours with coaches per month; the average number of spectators in home matches; the position in the league compared with the previous DFFS funding period; and the target for community building activities ("four performance targets"), the Committee asked how HAB would monitor DFFS.

99. **Secretary for Home Affairs** advised in his letter dated 22 June 2020 (*Appendix 23*) that:

- HKFA, with the assistance of LCSD, established 18 District Football Teams ("DFTs") in 2002, which represented the District Councils to compete in the HKFA leagues. Since the football season 2011-2012, HAB had implemented DFFS with the aim to improve the performance and governance of DFTs, as well as to strengthen the cohesion of the community and enhance district-level enthusiasm for football;
- HAB had set the performance targets of the average number of spectators in home matches and community building activities to monitor the performance of DFTs in community building and

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generating interests in football. In reviewing the effectiveness of DFFS, HAB would make reference to the DFTs' mid-term reports and final reports submitted to the District Offices ("DOs"), DFTs' achievements against the four performance targets and DOs' evaluation; and

- when DFTs were established in 2002, 12 DFTs participated in the lowest Third Division of the HKFA's league in the football season 2002-2003, while the remaining six DFTs joined the other teams to participate in the same division of the HKFA's league in the football season 2003-2004. Many teams were qualified for promotion to higher divisions of the league. In the football season 2019-2020, there were three DFTs participating in HKPL, six in the First Division, six in the Second Division and three in the Third Division. In the football season 2018-2019, Tai Po Football Club won the HKPL championship and was the first ever DFT to attain this achievement. DFTs had all along been providing young players with training and competition opportunities, which were conducive to improving the standard of play in Hong Kong. This demonstrated that DFFS had been effective in promoting football development at district-level.

100. With reference to paragraph 5.19 of the Audit Report, the Committee asked about the level of four performance targets set for DFFS. **Secretary for Home Affairs** advised in his letter dated 22 June 2020 (*Appendix 23*) that HAB set the indicators (i) to (iii) of the following table in the light of the review outcome of DFFS by FTF in 2014. Subsequently, HAB added the indicator (iv) of the following table in the light of FTF's review of DFFS in 2017.

Indicator	Minimum target
(i) Average number of training hours with coaches per month	40 hours (HKPL teams) 12 hours (other teams)
(ii) Average number of spectators in home matches	500 (HKPL teams) / 100 (First Division teams) / 50 (Second and Third Divisions teams)
(iii) Relative position in league compared with previous season	No lower than the position achieved in the previous season

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Indicator	Minimum target
(iv) Community building activities	At least three projects / activities

101. In reply to the Committee's request for an explanation on why some DFTs could not meet the performance targets, **Commissioner for Sports** explained at the public hearings that most of the cases not achieving performance targets were related to the following two targets: "Average number of spectators in home matches" and "Relative position in league compared with previous season" which could be affected by a lot of factors, some of which were beyond the control of the teams.

102. The Committee asked whether HAB would consider requesting the DFTs with significant differences between the achievements and the set targets to give an explanation on the differences. **Secretary for Home Affairs** advised in his letter dated 22 June 2020 (*Appendix 23*) that currently, DFTs were required to provide explanations to DOs in case of significant differences between the indicators and the actual situation. In reviewing DFFS, HAB would provide the definition for "significant difference".

103. Noting that some DFTs did not have a 11-a-side natural turf pitches in their districts and their home matches were played in other districts, the Committee asked whether these teams would have any difficulties in achieving the target: Average number of spectators in home matches.

104. **Commissioner for Sports** explained at the public hearings and **Secretary for Home Affairs** supplemented in his letter dated 22 June 2020 (*Appendix 23*) that LCSD allocated natural turf pitches as home venues of DFTs participating in HKPL. In the football season 2019-2020, the home venues of the three HKPL DFTs were the Mong Kok Stadium,<sup>8</sup> the Yuen Long Stadium and the Tai Po Stadium respectively. Regarding the other DFTs participating in the First, Second and Third Divisions, LCSD would allocate artificial turf pitches for HKFA to conduct matches concerned, and HKFA would endeavour to arrange several fixed venues for DFTs to conduct their home matches. However, due to rental and supply of public football pitches, the home matches of DFTs participating in the First,

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<sup>8</sup> The Aberdeen Sports Ground, which was the usual home venue of the Southern District-based football team, was closed for maintenance in the first half of the football season.

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Second and Third Divisions would sometimes be conducted in venues other than their respective districts, which would lower the interests of district-based fans to watch the matches.

105. The Committee enquired why some teams could not achieve the two targets "Average number of training hours with coaches per month" and "Community building activities". To make up for any shortfall in training hours, the Committee asked whether HAB could expand the definition of training to include more types of training.

106. **Commissioner for Sports** explained at the public hearings and **Secretary for Home Affairs** supplemented in his letter dated 22 June 2020 (*Appendix 23*) cases in which the teams could not achieve the two targets mentioned in the last paragraph. HAB preliminarily considered the indicator of 12 hours of training with coaches per month on average reasonable and noted that there were only several cases where DFTs could not meet this indicator, with some cases missing the indicator narrowly. HAB would consider the two performance targets in the DFFS review.

107. The Committee asked whether any of the 18 DFTs had been changed since the launch of DFFS and whether the Administration would consider new applications for DFTs to encourage competition.

108. **Commissioner for Sports** explained at the public hearings and **Secretary for Home Affairs** supplemented in his letter dated 22 June 2020 (*Appendix 23*) that DFTs were authorized by the District Councils to represent their respective districts to participate in the league. Under the current system, there was only one DFT in each district. Since the launch of the DFFS, the District Councils of Kowloon City, Sai Kung and Yuen Long had changed the team that they authorized to represent the district in the league in 2012, 2012 and 2013 respectively. Under DFFS, DFTs were required to sign an undertaking form, in which they promised to commit to achieve the four performance targets and understood that their funding applications in the future might not be accepted if they did not follow the relevant requirements. HAB would consider ways to increase the incentives for DFTs to improve their performance and meet the performance targets in the review.

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109. According to paragraph 5.20 of the Audit Report, for 22 of 90 reports, there was no DOs' documentation of their follow-up actions for the unmet performance indicators. The Committee sought the reasons for having no documentation. **Secretary for Home Affairs** advised in his letter dated 22 June 2020 (*Appendix 23*) that when a DFT failed to meet an indicator, the relevant DO would make enquiries and take follow-up actions as appropriate. HAB agreed that DOs should document their follow-up actions properly. When the HAB reviewed DFFS, clearer guidelines would be devised for DOs on the documentation of their assessment and follow-up actions.

110. In response to the Committee's enquiry about the reasons for not requiring DFTs to report their achievements against their performance targets in their reported achievements as mentioned in paragraph 5.21 of the Audit Report, **Secretary for Home Affairs** advised in his letter dated 22 June 2020 (*Appendix 23*) that DFTs were required to report information on their training and community activities held in their reports. League positions of DFTs were listed on the HKFA's website, hence they did not need to be reported. However, HAB had not specifically required DFTs to report the average number of spectators in home matches, and such information was reported by DFTs on their own initiatives or enquired by DOs. When HAB reviewed DFFS, HAB would devise clearer guidelines to improve the situation.

## **F. Governance of the Sports Commission and its committees**

111. With reference to paragraph 6.6 of the Audit Report, the Committee sought the reasons for the decrease in the total number of meetings of SC and its committees by 36% from 11 in 2015 to 7 in 2019. **Commissioner for Sports** explained at the public hearings and **Secretary for Home Affairs** supplemented in his letter dated 22 June 2020 (*Appendix 23*) that the number of meetings depended on the number of issues that needed to be discussed. The other reason was that SC and its committees had formed some ad hoc working groups to tackle specific issues. In 2015-2019, seven working groups had been formed under SC and its committees. These working groups had held a total of 49 meetings.

112. With reference to Table 50 in paragraph 6.13 of the Audit Report, the Committee enquired about the reasons for some members not attending any meetings from 2015-2019, in particular six members of the Community Sports Committee did not attend any meetings in 2019. **Director of Leisure and Cultural Services** explained at the public hearings that in 2019 there were social unrest situations and



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the Community Sports Committee only held one meeting. Four working groups had been formed under the Community Sports Committee and six meetings had been held for these working groups in 2019. Members of the Community Sports Committee had attended these working groups meetings.

113. In response to the Committee's enquiry about measures taken to improve members' attendance/participation in the meetings of SC and its three committees, **Secretary for Home Affairs** explained at the public hearings and supplemented in his letter dated 22 June 2020 (*Appendix 23*) that in 2020, SC and its committees used video conferencing according to their respective needs to encourage members' active participation in the meetings.

114. At the request of the Committee, **Secretary for Home Affairs** provided in his letter dated 22 June 2020 (*Appendix 23*) a table setting out the attendance rates of members of SC and its three committees for the past three terms.

115. With reference to Case 5 in paragraph 6.20 and paragraph 6.22 of the Audit Report, the Committee enquired how a member's directorship of an organization being discussed in a proposal should be dealt with under the guidelines of declaration of interests of SC and its three committees and about improvements made to the guidelines on declaration of interests.

116. **Secretary for Home Affairs** explained at the public hearings and advised in his letter dated 22 June 2020 (*Appendix 23*) that SC did not make any decisions but only provide advice to Secretary for Home Affairs. Under the existing mechanism, if a member had potential conflict of interest in any discussion item under the meeting agenda, the member concerned should declare it before the discussion. The chairperson might decide whether to allow the member to participate in the discussion and vote. HAB would strengthen the implementation of the requirements on declaration of interests, such as consider requesting members to declare their interests in writing before the meeting.

117. The Committee asked whether briefings had been arranged for members of SC/its committees/its working groups on the requirements about declaration of interests upon their appointment.

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118. **Secretary for Home Affairs** advised in his letter dated 22 June 2020 (*Appendix 23*) that in 2019, at the start of the new term of SC and its committees, HAB introduced the work, responsibilities and obligations of the relevant committees, including the requirements on declaration of interest, to newly appointed members of SC and its committees. Instead of briefing sessions, HAB arranged meetings or dialogues for this purpose with individual members to suit their schedules.

**G. Conclusions and recommendations**

<b>Overall comments</b>
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119. The Committee:

- notes that:

- (a) the sports portion of the Arts and Sport Development Fund ("ASDF" - hereinafter ASDF refers only to its sports portion) is an important source of funding for sports development in Hong Kong. As at 31 March 2019, ASDF had a balance of \$2,396 million. In 2018-2019, the total number of ASDF approved projects was 166 with an approved amount of \$123.8 million; and
- (b) ASDF provides funding to the Hong Kong Football Association ("HKFA") for the development of local football through the implementation of football development plans, which comprised the Project Phoenix. A maximum of \$20 million annually was earmarked for allocation to HKFA for the implementation of the recommendations in the Project Phoenix. Up to March 2015, the total amount of government funding to HKFA for this purpose amounted to around \$55.45 million. HKFA then put forward the Five-Year Strategic Plan ("FYSP") for the period April 2015 to March 2020. A maximum of \$25 million was earmarked for allocation annually under ASDF for FYSP from 2015-2016 to 2019-2020. FYSP was concluded on 31 March 2020. Apart from ASDF, the Leisure and Cultural Services Department ("LCSD") has also been providing recurrent subvention under the

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Sports Subvention Scheme to HKFA for the development and promotion of local football. In 2019-2020, the LCSD's subvention to HKFA was \$19.2 million;

- stresses that:
  - (a) HKFA, a national sports association ("NSA"), is an independent legal entity with full autonomy to run its affairs and should not be subject to political or religious pressures as stipulated in the Olympic Charter and the Fédération Internationale de Football Association Statutes. HKFA's Board of Directors is responsible for HKFA's governance. HKFA has a unique role to promote the development of football in Hong Kong and the Hong Kong community and Hong Kong's football fans have high expectation of it to raise the standards of football in Hong Kong and the international ranking of the football teams, and promote the sport to a wider community. With 37% of its incomes from the Administration in the football season 2017-2018, HKFA should attach great importance and set it as a top priority to increase its accountability on the use of public monies to the Administration and the community. High standards of corporate governance are essential for HKFA to gain public trust that it could perform effectively in its functions and roles;
  - (b) a consultancy report from a study commissioned by the Home Affairs Bureau ("HAB") in 2009 recommended HKFA to undergo a transformation process involving, among other things, changes to HKFA's governance structure and recruitment of qualified and professional officers. The report also stated that a well managed governing body was needed to deliver the vision for football in Hong Kong and transform the sport into a world class product. For the funds disbursed under the Project Phoenix and FYSP, more than 80% were expended on staff and related costs; and
  - (c) football is one of the most popular sports in Hong Kong. According to a survey, around 17% of the respondents were most interested in watching football, the top sport on the list;<sup>9</sup>

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<sup>9</sup> Source: Thematic Household Survey Report No. 47, Census and Statistics Department, March 2011

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- considers that with tens of millions of dollars government funding allocated for HKFA since November 2011 on football development in Hong Kong, the overall achievement had been disappointing, and in that regard, it reflects that HAB and LCSD had failed to closely monitor HKFA's overall performance from a value-for-money perspective;
- expresses dismay and disappointment that representatives of bureaux/departments and government-funded organizations which are reviewed by the Audit Commission ("Audit") do not provide complete information and appropriate response to the observations in the Director of Audit's Report ("Audit Report") and the Committee's questions at the public hearings as illustrated by the following case:
  - (a) according to the Audit Report, Audit examined 28 applications approved under ASDF for funding to support Hong Kong athletes to prepare for and participate in international games. Despite that the delay in submission of programme reports and/or audited accounts for six of these applications was more than six months, a 1% charge had not been imposed as required under the enhanced measures implemented since 2015-2016. Neither Secretary for Home Affairs nor Director of Leisure and Cultural Services had responded to this observation nor provided an explanation on these six applications; and
  - (b) as the Committee's questions at the public hearing on this subject were not answered satisfactorily, Director of Leisure and Cultural Services stated in a written reply subsequent to the public hearing that LCSD counted calendar months instead of calendar days to calculate the deadline and there were no delays for the six applications in question;
- urges the Administration to ensure that:
  - (a) bureaux/departments and government-funded organizations which are reviewed by Audit should treat the audit review exercises seriously as these exercises could help reveal the deficiencies and irregularities and improve their operations and governance. The bureaux/departments and organizations should provide appropriate responses and complete information to Audit for

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inclusion in the Audit Report to provide a full picture on the subject matter; and

- (b) representatives of bureaux/departments and government-funded organizations who are invited to attend the Committee's public hearings should familiarize themselves thoroughly with the materials/cases mentioned in the Audit Report and should be prepared to answer the questions raised on the spot to facilitate the smooth conduct of the hearings;
- finds it appalling and inexcusable that the Audit Committee, a standing committee of HKFA which is responsible for, among other things, the important task to monitor and review the effectiveness of HKFA's internal audit function, was not formed from July 2015 to 30 June 2019. The Audit Report and the public hearings have revealed the following non-compliances, irregularities and deficiencies:
  - (a) it is stated in the terms of reference of the Audit Committee that it shall meet at least four times a year. While a convenor was appointed in July 2015 by the Board to form the Audit Committee, it had not been formed from July 2015 to 30 June 2019 with no Chairman and members and no meetings held. The Board was notified of this situation but no measures were taken to rectify the non-compliances;
  - (b) the statement "[t]he accounts of the HKFA are endorsed by the Finance Sub-committee and Audit Committee, and subsequently approved by the Board" appeared in the Corporate Governance Statement section of the HKFA Annual Reports 2014-15, 2015-16 and 2016-17 despite that the Audit Committee was not formed during these years;
  - (c) while the terms of reference of the Audit Committee only places restriction on who could not be the Chairman of the Audit Committee,<sup>10</sup> the HKFA Board adopted a more restrictive approach in 2015 that no directors of the Board should be the Chairman or members of the Audit Committee without updating the terms of reference on such restriction; and

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<sup>10</sup> It is stated in the terms of reference of the Audit Committee that "[i]n order to maintain the independence, the Chairman of the Audit Committee shall neither be the Chairman of the Board, nor the Chairman/member of other functional committee.

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- (d) while it was stated in the Audit Report that the Audit Committee only had the Chairman from July 2015 onwards, that person was actually acting in the capacity of a Convenor. HKFA had not corrected this error when given the chance and sufficient time to review the draft Audit Report before its publication;
- finds it appalling and inexcusable about the other inadequacies and irregularities relating to the corporate governance and operations of HKFA as evidenced by the following:
  - (a) HKFA could not provide, for Audit's examination, most of the agendas and minutes of meetings of the HKFA Marketing and Communications Committee for the period July 2014 to March 2019. In the football seasons 2014-2015 to 2018-2019, there were meetings held but the minutes, other than those for the meetings held in April, May and June 2019, could not be located;
  - (b) according to Article 41 of the Articles of Association of HKFA, "[a]uditors shall be appointed by the Assembly at the AGM [Annual General Meeting] and shall audit the accounts approved by the Finance and Strategy Committee ...". However, it was stated in the Annual Reports that the accounts were only endorsed by the Finance Sub-committee and the Finance and Strategy Committee has not held any meeting since 13 May 2015;
  - (c) in the football seasons 2014-2015 to 2018-2019, certain members of HKFA's Board, committees and sub-committees attended less than half of the relevant meetings;
  - (d) in the football seasons 2014-2015 to 2018-2019, no first-tier declarations were made by members of the HKFA Board, committees and sub-committees;
  - (e) for the 10 HKFA recruitment exercises conducted in the period 2014-2015 to 2018-2019, some applications were successful despite that they were received after the application deadlines or not sent to the designated recipients;
  - (f) in examining the 10 recruitment exercises mentioned in (e) above, there was room for improvement in the declarations of conflicts of interest in recruitment exercises. For example, in 3 of the

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10 recruitment exercises, the dates of declaration forms signed by five recruitment panel members were later than the dates of interviews; and

- (g) of the 50 items of procurement of goods and services in the period June 2014 to September 2019, for 10 items (20%), HKFA did not obtain any quotations and there was no documentation on the justifications for not obtaining any quotations;
- expresses dismay and disappointment about HKFA's effectiveness in achieving the performance targets and indicators and promoting football to the community as revealed by the following:
  - (a) in the period 2015-2016 to 2018-2019, the average number of spectators of the matches organized by HKFA had decreased by 3.6% from 1 403 in 2015-2016 to 1 352 in 2018-2019;
  - (b) funding from the Government and other organizations accounted for 47% of the total incomes of HKFA in the football season 2014-2015, but the percentage rose to 73% in the football season 2017-2018. In addition, apart from programme and registration fees income, all other self-generated incomes were decreasing;
  - (c) in the period 2015-2016 to 2018-2019, the number of HKFA's under-achievements against performance targets and indicators ranged from 2 to 11. In 2018-2019, there were under-achievements in nine performance targets and three performance indicators. The extent of individual under-achievements ranged from 1% to 50%; and
  - (d) up to the end of September 2019, some achievements against the key targets set in the consultancy report on football development issued in December 2009 (e.g. the "National" Team Fédération Internationale de Football Association world and Asia rankings for the ladies) were lower than the targets set and even lower than the achievements in 2009;
- notes that:
  - (a) HAB will urge the HKFA Board to take effective measures to address the governance issues identified by Audit;

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- (b) HAB will provide the Sports Federation & Olympic Committee of Hong Kong, China with a time-limited allocation of \$5 million per year for five years starting 2020-2021 for setting up a dedicated team to examine the existing governance structure and operation of all NSAs, including HKFA, formulate a code of governance and monitor NSAs' compliance with the code, with a view to enhancing their corporate governance and transparency;
  - (c) HAB will urge the HKFA Board to take effective measures in improving HKFA's human resources management and ensure that recruitment is conducted in a fair and transparent manner in full compliance with the relevant policies and procedures of HKFA;
  - (d) HAB will require HKFA to submit an action plan for consideration by the Football Task Force ("FTF") on how it intends to address the issues on governance and human resources management identified by Audit, and submit progress reports on the implementation of the action plan at six-months' intervals;
  - (e) HAB will urge the HKFA Board to take effective measures to ensure that HKFA's procurement activities are conducted in full compliance with the relevant policies and guidelines of HKFA. HAB will require HKFA to submit an action plan on how it intends to address the issues identified by Audit; and
  - (f) in both the mid-term review conducted in mid 2017 and final review at the end of 2019 of HKFA's performance under FYSP, FTF has expressed concerns about HKFA's poor performance in boosting attendance at Hong Kong Premier League ("HKPL") games and generating additional commercial revenue. FTF urged HKFA to demonstrate its utmost effort in making improvements in both areas. HAB will urge HKFA to ascertain the reasons for the decrease in the number of spectators and self-generated income, and require it to submit an action plan for consideration by FTF on how it intends to address the issues identified by Audit;
- understands that some directors of the HKFA Board had devoted their time on the development of football in Hong Kong but the outcome or achievement of HKFA's work in improving the performance of



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Hong Kong football is not commensurate with their good intention and input; and

- strongly urges and cautions that:
  - (a) the directors of HKFA Board, together with the assistance of the paid management staff, should review whether HKFA's existing governance model is effective for attaining and maintaining high levels of corporate governance;
  - (b) as part of an effective governance model, HKFA should formulate clear guidelines and practices, adhere to the guidelines and practices, make decisions through proper procedures, authorization and channels, maintain documentation of all decisions (including the grounds of decisions), in particular those exceptional cases. This would also facilitate the monitoring of the Administration and the public on the proper use of public monies;
  - (c) HKFA should implement a rigorous and robust internal monitoring and audit mechanism for the directors and senior management to check non-compliance cases and to rectify any non-compliance cases in a timely manner;
  - (d) as short-term measures, HKFA should immediately formulate rectification measures with an implementation timetable to address the inadequacies and irregularities in respect of its corporate governance and other operational aspects as revealed in the Audit Report and in the Committee's Report;
  - (e) as a medium-term measure, HKFA should make use of the five-year review of all NSAs to make a thorough review of its corporate governance and formulate and implement any improvement measures as appropriate;
  - (f) while the review of the governance model, policies and practices for HKFA should be undertaken by the Board with the input of senior management, HKFA should consider how staff at different levels could be engaged to contribute to achieving high standards of good governance for HKFA;

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- (g) HKFA should make use of a new five-year strategic plan to target improving under-achieving performance targets and indicators, such as the attendance of HKPL games and the ranking of the Hong Kong men's football team, and raising the amount of commercial sponsorships; and
- (h) HAB and LCSD, as the bureau/department responsible for approving the government funding to HKFA, should take up a more pro-active role in monitoring the use of the funding. While key performance indicators have been set for the football development programmes, the monitoring of the use of funding on staff and related costs, in particular, staff responsible for improving the governance, only falls on the HKFA Board. While respecting the independence of HKFA, HAB should urge HKFA to increase the transparency, say, by uploading onto its website more details of the governance models, measures done to improve its governance, the effectiveness of these measures and how internal monitoring is carried out. In evaluating the new five-year strategic plan for football development, HAB should consider how it could enhance the monitoring of the governance of HKFA and the implementation of the new strategic plan.

<b>Specific comments</b>
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120. The Committee:

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

- expresses grave concern that:
  - (a) of 28 applications approved under ASDF preparation and participation funds examined by Audit, for seven applications, the grantees had not set performance targets; for 12 applications, some achievements against performance targets were not reported in the programme reports; and for two applications, the grantees failed to achieve all or some of the performance targets. There

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was no evidence indicating that HAB and LCSD had taken any follow-up actions;

- (b) for 24 (86%) of 28 applications mentioned in (a) above, there were significant variances (i.e. over 25%) between the estimated and actual amounts of expenditure and/or between those of income, and the grantees had not provided explanations for the variances in their programme reports;
- (c) of the 28 applications mentioned in (a) above, the assurance provided by auditors in the audited accounts submitted by the grantees varied. There was, however, no evidence indicating that HAB and LCSD had taken any follow-up actions;
- (d) in the period 2014-2015 to 2018-2019, while the delay in submission of programme reports and audited accounts was generally on the decrease, there were still 62% of cases of delay in respect of the preparation fund in 2018-2019 and still 50% of cases of delay in respect of the participation fund for games sanctioned by the International Olympic Committee, the Olympic Council of Asia, the International Paralympic Committee or the Asian Paralympic Committee in 2018-2019. In addition, the percentage of cases of delay in respect of the participation fund for other competitions had increased from 18% in 2017-2018 to 40% in 2018-2019;
- (e) for 1 of 28 applications mentioned in (a) above, it appeared that the self-generated income had been wrongly included in the calculation of return of unspent balance; and
- (f) in the period 2014-2015 to 2018-2019, for six applications under the preparation fund, the grantees returned the unspent balances over one year after the submission of audited accounts. Moreover, of 28 applications mentioned in (a) above, apart from one application where the late return could be attributable to both HAB (9.8 months had elapsed since receipt of audited accounts by HAB) and the grantee (seven months had elapsed since the date HAB issued letter requesting return), the late return was mainly due to the long-time interval between the dates of receipt of audited accounts by HAB and the dates HAB issued letters requesting return of unspent balances;

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- notes that:
  - (a) HAB and LCSD will make clear in the funding guidelines for the grantees that athletes' performance targets and actual results in any particular competition are not among the factors of their consideration in approving applications for preparation and participation funds. They nevertheless would take into account the performance of the athletes, over time, in the sports concerned;
  - (b) HAB and LCSD will modify the relevant guidelines for the grantees to ensure that their auditors certify their compliance with the procurement requirements and the Code of Conduct, and alert them on the consequence if any non-compliance is spotted;
  - (c) HAB and LCSD will review the relevant guidelines for the grantees to provide explanations for variances over 25% between estimated and actual amounts of expenditure as well as between those of income and devise a new programme report proforma;
  - (d) HAB and LCSD will re-assess the timelines for submission of programme reports and audited accounts and devise a new assessment mechanism to differentiate different degree of late submission and assessment consequences. New designated assessment form will be devised accordingly if considered necessary;
  - (e) HAB will clarify the calculation of unspent balances that grantees are required to return;
  - (f) LCSD will step up the follow-up actions with grantees for ensuring timely return of unspent balances to HAB;
  - (g) Secretary for Home Affairs has accepted Audit's recommendation in paragraph 2.25 of the Audit Report; and
  - (h) Secretary for Home Affairs and Director of Leisure and Cultural Services have accepted Audit's recommendations in paragraph 2.26 of the Audit Report;

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- strongly urges that:
  - (a) HAB and LCSD should consider drawing up clear guidelines for ASDF applicants on the setting of more realistic and achievable performance targets; and
  - (b) to ensure timely return of unspent balances of the approved funding amount by grantees, HAB and LCSD should step up efforts to expedite the verification of grantees' audited accounts, and provide grantees with clear guidelines setting out the types of eligible expenditures under ASDF preparation and participation funds to avoid unnecessary arguments with grantees; and consider imposing penalties for those grantees' who are repeatedly late in returning unspent balances to the Administration;

Funding for international sports events

- expresses grave concern that:
  - (a) of 10 international sports events, comprising three "M" Mark events ("MMEs"), three Major Local International Events ("MLIEs") and four Local International Events ("LIEs"), organized in the period 2017-2018 and 2018-2019 and examined by Audit, in one MLIE, the application had not been properly assessed;
  - (b) between 2015-2016 and 2018-2019, the percentage of events with delay in submission of programme reports and audited accounts had either remained the same (at 75% for MMEs) or was on the increase (from 60% to 78% for MLIEs and from 6% to 10% for LIEs);
  - (c) grantees of MMEs were not required to report any significant variances between the estimated and actual amounts of expenditure or between the estimated and actual amounts of income;
  - (d) of the 10 events mentioned in (a) above, in three MLIEs and four LIEs, of a total of 44 performance targets, six targets (e.g. expected number of spectators) had not been achieved and the achievements of 29 targets (e.g. expected achievement of

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Hong Kong team/athletes for the event) had not been reported. In all the three MLIEs and four LIEs, there was no evidence indicating that LCSD had taken any follow-up actions;

- (e) for 2 of the 17 MLIEs and 11 of the 49 LIEs inspected by LCSD (out of 19 MLIEs and 95 LIEs organized by 55 NSAs and 1 sports organization in 2018-2019), there were no inspection reports documenting the details of inspections. In addition, LCSD had not laid down guidelines on selection of MLIEs and LIEs for inspections. No inspections were conducted for any of the MLIEs and LIEs organized by 11 (out of 55) NSAs and 1 sports organization;
- (f) for the 10 events mentioned in (a) above, in one MLIE and one LIE, some information (e.g. the number of spectators) was missing in the inspection reports. In addition, LCSD had not laid down guidelines on the number of on-site inspections to be conducted for events that were held for a number of days;
- (g) despite the surpluses of all four MLIEs and five of the six LIEs which had other incomes (e.g. sponsorships and ticket sales) in addition to ASDF grants and were organized in the period 2014-2015 to 2018-2019, contrary to the arrangement that MME grantees need to return their surpluses to the Government, the grantees of the four MLIEs and five LIEs were not required to do so (they were only required to return their unspent balances); and
- (h) a long time had elapsed (e.g. some 10 months) before the unspent balances of some MLIEs and LIEs organized in the period 2014-2015 to 2018-2019 were returned to the Government, and a major reason for the long lapse of time was the long time taken by LCSD to verify the amounts of unspent balances and issue request letters;

- notes that:

- (a) LCSD will work with HAB to re-assess the timelines for submission of programme reports and devise a new assessment mechanism to differentiate different degree of late submission and assessment consequences. A new designated assessment form

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for MLIEs will also be devised accordingly if considered necessary;

- (b) LCSD will work with HAB to refine the assessment mechanism to ensure that applications from an NSA with late submission of required reports in the last application would not be awarded scores unless there are acceptable reasons for the late submission. Such justifications would be clearly documented. LCSD would also revise the application form to clearly state the above arrangement in order to highlight to NSAs the importance of timely submission of the required reports;
- (c) HAB and LCSD will review the relevant guidelines for the MME, MLIE and LIE grantees to provide explanations for variances over 25% between estimated and actual amounts of expenditure. Related information will be required in the new programme report for future reference;
- (d) HAB and LCSD will review and examine the need for aligning the existing arrangements for returning surpluses for MMEs and unspent balances of MLIEs and LIEs;
- (e) HAB and LCSD will review the assessment mechanism for MLIEs and LIEs and clarify to what extent explanation for variation against the performance target would be required and modify the programme report proforma accordingly;
- (f) HAB and LCSD will modify the relevant guidelines for MME, MLIE and LIE grantees to ensure that their auditors certify the grantees' compliance with HAB/LCSD requirements;
- (g) LCSD will issue reminders to chase up submission of late programme reports and audited accounts as well as review and enhance the follow-up mechanism with a view to deterring protracted late submission;
- (h) LCSD will devise a set of guidelines and checklist of on-site inspection for MLIEs and LIEs;
- (i) LCSD will review and improve the monitoring system for on-site inspection;

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- (j) LCSD will step up the follow-up actions for ensuring timely return of unspent balances;
- (k) Director of Leisure and Cultural Services has accepted Audit's recommendations in paragraph 3.10 of the Audit Report;
- (l) Secretary for Home Affairs has accepted Audit's recommendation in paragraph 3.38 of the Audit Report; and
- (m) Secretary for Home Affairs and Director of Leisure and Cultural Services have accepted Audit's recommendations in paragraphs 3.31 to 3.33 of the Audit Report;

Funding for football development

- expresses grave concern that:
  - (a) in the period 2014-2015 to 2018-2019, the staff turnover rates of ASDF-funded posts in HKFA were on the high side (i.e. at 30% or more) in three years. For some departments of HKFA (e.g. the Marketing and Communications Department), the staff turnover rates were particularly high in some years (i.e. more than 60%);
  - (b) the proportion of spectators holding complimentary tickets to total number of spectators of HKFA matches had increased from 9% in 2015-2016 to 14.6% in 2018-2019. In some matches, the number of spectators holding complimentary tickets was greater than those holding sold tickets. Furthermore, the results of using complimentary tickets to improve attendances were not always satisfactory. For example, of the 1 778 complimentary tickets distributed for the Asian Football Confederation Asian Cup held in June 2017, 1 158 (65%) tickets were not used;
  - (c) in respect of a performance target (namely "increase sponsorship and advertising gross revenue") reported in HKFA's half-yearly progress reports, there were discrepancies between the amounts reported in the half-yearly progress reports and the amounts provided by HKFA in August 2019. In addition, in respect of a performance indicator (namely "average attendance per HKPL match"), there were discrepancies between the attendances



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reported in the half-yearly progress reports and those published on HKFA website; and

(d) in the period 2015-2016 to 2019-2020, there were late disbursements (up to 163 days late) of the instalment of the annual grants to HKFA. In addition, in 2016-2017, 2018-2019 and 2019-2020, FTF meetings to endorse the annual grant applications were held after the beginning (i.e. 1 April) of the grant periods;

- notes that:

(a) HAB will review the process for releasing funds to HKFA and make improvements as appropriate to ensure that future disbursements will be made in a timely manner; and

(b) Secretary for Home Affairs has accepted Audit's recommendations in paragraphs 4.19, 4.33, 4.43 and 4.65 of the Audit Report;

Funding for other sports programmes and schemes

- expresses dismay and disappointment that:

(a) while the performance targets set for the first development stage of the Five-Year Development Programme for Team Sports were that the final positions of the teams in the 2018 Asian Games should be higher than those in the 2014 Asian Games, 9 of the 12 teams that participated in the 2018 Asian Games did not achieve the performance targets;

(b) for the District Football Funding Scheme ("DFFS") in the funding periods 2014-2015 to 2018-2019, of the 18 District Football Teams ("DFTs"), out of the four performance targets, four DFTs continuously did not achieve one or more of the targets, while the other 14 DFTs did not achieve at least one of the targets in one or more years. Furthermore, explanations for the under-achievements had not been provided by 10 DFTs;

(c) there was no requirement stipulating that DFTs should report their achievements in their reports; and

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- (d) in the DFFS funding periods 2014-2015 to 2018-2019, the two respective DFTs (of the two District Offices ("DOs") visited by Audit) had not provided any information on quotations obtained for some purchases, contrary to the requirements;
- notes that:
  - (a) with input from DOs, HAB would review the performance reporting and assessment mechanism as well as update the guidelines for DFTs as appropriate. HAB will ask DOs to follow up the review with a view to ensuring DFTs' compliance with the revised guidelines, and revised performance reporting and assessment mechanism;
  - (b) HAB will ask DOs to step up monitoring of the procurement activities of DFTs, including the submission of information on quotations obtained in making purchases, to ensure compliance with DOs' Manual on the use of District Funds; and
  - (c) Secretary for Home Affairs has accepted Audit's recommendations in paragraphs 5.13, 5.27, 5.28 and 5.37 of the Audit Report;

Governance of the Sports Commission and its committees

- expresses concern that:
  - (a) while according to the Standing Orders, regular meetings of the Sports Commission ("SC") may be held once every three to four months (i.e. four or three meetings a year), and regular meetings of SC underpinning committees may be held every three months (i.e. four meetings a year), for the period 2015 to 2019, on average, each of the SC and its underpinning committees held only two meetings per year;
  - (b) for the period 2015 to 2019, each year, there were members who did not attend any meetings of SC or an underpinning committee. The number of such members totalled 32 in the period. Records did not indicate that HAB and LCSD had taken actions to encourage members to attend meetings;

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- (c) for the period 2015 to 2019, there were occasions where members of SC did not adequately declare potential conflicts of interest;
  - (d) records did not indicate that HAB and LCSD had reviewed, from time to time, the system for declaring interests of SC and its underpinning committees;
  - (e) notices of meetings had not been posted for all 43 SC and its underpinning committees meetings held in the period 2015 to 2019, and agendas had not been posted for 11 (26% of 43) meetings; and
  - (f) while according to the practice of HAB and LCSD, members are requested to sign a confidentiality agreement upon appointment, in the period 2015 to 2019, the agreements of some committee members were missing; and
- notes that:
- (a) HAB and LCSD would review the frequency of meetings laid down in the Standing Orders and update the Standing Orders as appropriate, and step up efforts to encourage members to attend meetings;
  - (b) HAB would remind members of SC to declare potential conflicts of interest as required by the Standing Orders;
  - (c) to ensure that the due process regarding declarations of interest is complied with, HAB and LCSD would record the deliberations on such a process in the minutes of the meetings of SC and its underpinning committees even when none of the members have declared interests for the discussion items;
  - (d) HAB would work with LCSD to periodically review the system for declaration of interests of SC and its underpinning committees;
  - (e) HAB and LCSD would update the Standing Orders of SC and its underpinning committees as and when necessary;

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- (f) HAB and LCSD would disclose to the public information on the meetings of SC and its underpinning committees in accordance with the latest Standing Orders;
- (g) HAB would take measures to ensure that agreements on confidentiality are duly signed and returned by members of SC and its underpinning committees; and
- (h) Secretary for Home Affairs and Director of Leisure and Cultural Services have accepted Audit's recommendations in paragraphs 6.16, 6.25, 6.26, 6.34 and 6.35 of the Audit Report.

<b>Follow-up action</b>
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121. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by the Committee and Audit.