

CHAPTER 1

Leisure and Cultural Services Department

Administration of the Sports Subvention Scheme

**Audit Commission
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This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

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ADMINISTRATION OF THE SPORTS SUBVENTION SCHEME

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PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines its objectives and scope.

Background

1.2 The Government has set the following objectives on sports development:

- (a) a sustainable and community-wide sporting culture whereby people of all age groups participate actively in sports in quest of sound physical and psychological health, as well as positive community spirit;
- (b) a cadre of high performance athletes who can compete in major international and overseas sports events competitively, and become role models for the youth; and
- (c) Hong Kong becomes an attractive venue for hosting international sports events of different nature and size, thereby bringing in more tourists and other economic benefits.

National Sports Associations

1.3 As one of the means to achieve the above objectives, the Government provides funding support to National Sports Associations (NSAs). NSAs are local governing sports organisations in the respective sports disciplines established with the objectives to promote and develop local sports, and to participate in international sports activities. They are normally affiliated to the international federations concerned and are recognised by the Sports Federation and Olympic Committee of Hong Kong, China as the sole official representatives for their respective sports in international events.

Funding support provided to NSAs

1.4 NSAs are non-profit-making organisations. They receive recurrent subvention from the Government. They may also generate income through donation, commercial sponsorship, membership fee and members' contribution.

1.5 Before 2004-05, the former Hong Kong Sports Development Board was responsible for granting subvention to NSAs. With the dissolution of the Board in April 2004, the Leisure and Cultural Services Department (LCSD) has since taken over the funding responsibility. The LCSD administers a Sports Subvention Scheme which provides

subvention to NSAs to promote and develop their respective sports. The LCSD units involved in administering the Scheme are listed in an extract of the LCSD organisation chart at Appendix A. Currently, there are 58 NSAs receiving recurrent subvention under the Scheme (Note 1).

1.6 The recurrent subvention granted to NSAs under the Scheme covers the following three types of expenses:

- (a) **Programme Expenses.** They are essential for NSAs to implement sports programmes such as participating in major sports events;
- (b) **Personnel Expenses.** They are salaries and related expenses of the subvented posts of NSAs; and
- (c) **Office Expenses.** They are administrative costs of NSAs, such as rent and rates (Note 2), public liability insurance premium and audit fee.

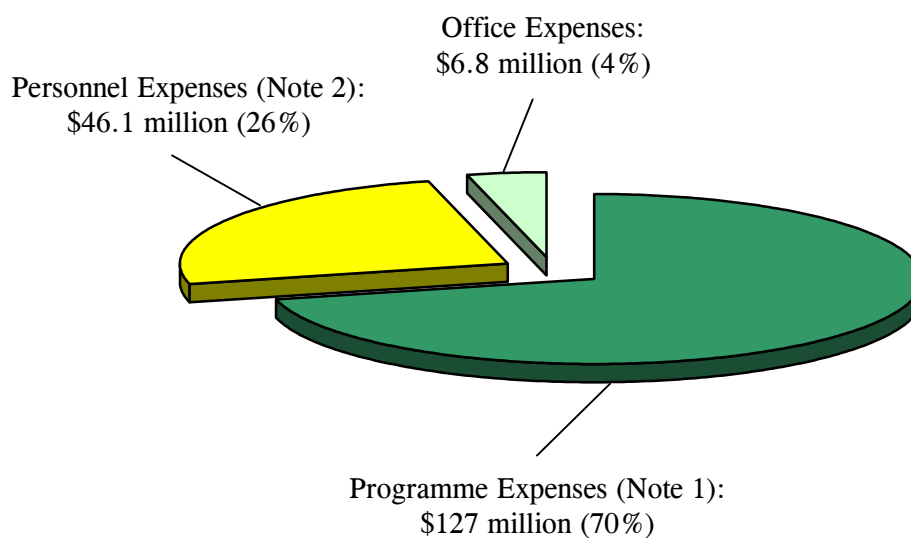
1.7 In 2009-10, the subvention granted to NSAs was \$179.9 million, of which \$127 million was for Programme Expenses, \$46.1 million for Personnel Expenses, and \$6.8 million for Office Expenses. Details are shown in Figure 1.

Note 1: *A number of sports organisations also receive subvention, on a project basis, under the Scheme. The subvention granted to them accounts for a small portion (e.g. 4% for 2009-10) of the total subvention granted. This part of the Scheme has not been covered in this audit.*

Note 2: *Rent and rates subsidy is provided if an NSA is not accommodated in the Olympic House (a building entrusted by the Government to the Sports Federation and Olympic Committee of Hong Kong, China for providing support facilities to the sports community, including the provision of rent-free accommodation to some NSAs).*

Figure 1

**Subvention granted to NSAs
(2009-10)**



Source: LCSD records

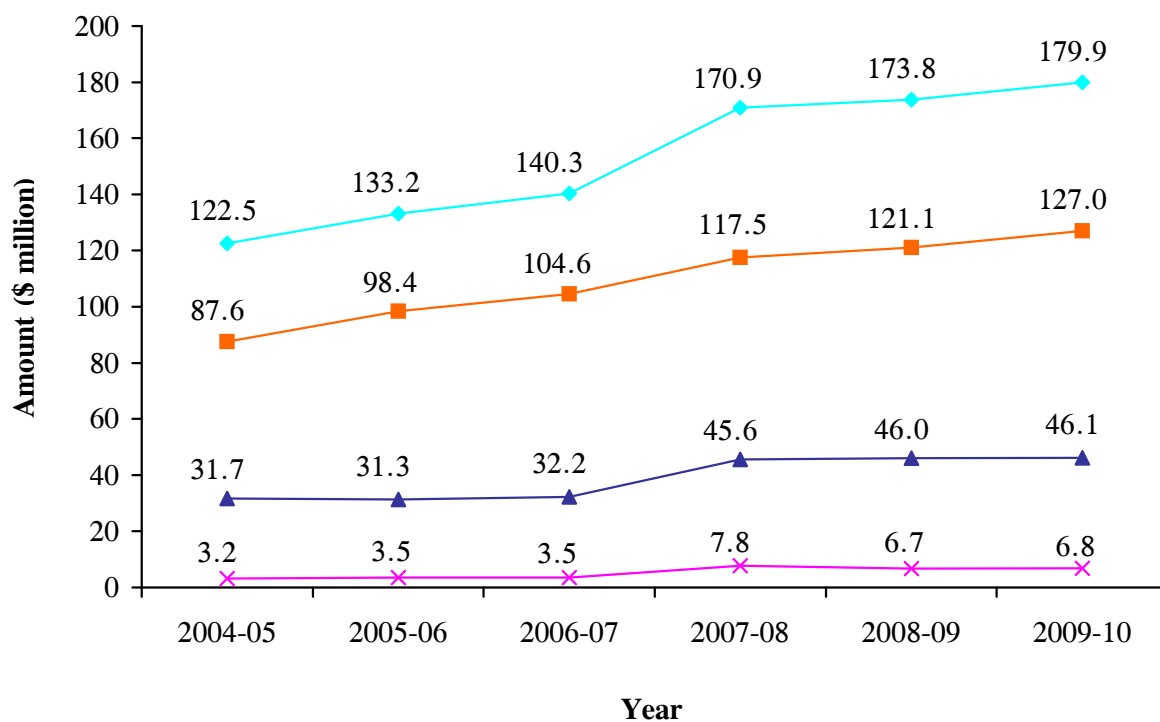
Note 1: The Programme Expenses included: (a) a notional sum of \$24.2 million, being the waived rental charges of LCSD venues used by NSAs for holding subvented programmes; and (b) an amount of \$1.4 million held by the LCSD for meeting NSAs' conference and contingency needs.

Note 2: The Personnel Expenses included an amount of \$0.9 million held by the LCSD for meeting expenses such as medical insurance of subvented posts.

1.8 In 2009-10, the subvention granted to individual NSAs ranged from \$0.4 million to \$9.1 million, depending on their individual organisational capability, other sources of income and scale of approved activities. Figure 2 shows that the subvention granted to NSAs has increased during 2004-05 to 2009-10.

Figure 2

**Subvention granted to NSAs
(2004-05 to 2009-10)**



Legend: ◆ Total subvention
■ Programme Expenses
▲ Personnel Expenses
× Office Expenses

Source: LCSD records

1.9 NSAs can also apply to the Arts and Sport Development Fund (ASDF — Note 3) for funding support on a project basis to prepare for and participate in major games or to organise major local international events. In 2008-09, 20 projects were granted a total of \$23.2 million from the ASDF.

Note 3: *The ASDF is a sub-fund under the Sir David Trench Fund for Recreation and is administered by the Home Affairs Bureau.*

Audit review

1.10 The Audit Commission (Audit) has recently conducted a review on the LCSD's administration of subvention to NSAs under the Sports Subvention Scheme. For a sample check on NSAs' compliance with the subvention conditions of the Scheme, Audit has visited six NSAs (NSA1 to NSA6 — Note 4) to examine their internal controls and accounting records. Audit has consulted the six NSAs on the audit findings and has incorporated their comments in the relevant parts of this report. The review has found that there is room for improvement in the following areas:

- (a) allocation of subvention (PART 2);
- (b) monitoring of National Sports Associations' performance (PART 3); and
- (c) internal controls of National Sports Associations (PART 4).

The review has made a number of recommendations to address the issues.

General response from the Administration

1.11 The **Director of Leisure and Cultural Services** welcomes the audit review and accepts the audit recommendations. She has said that:

- (a) the LCSD will set up a working group to conduct a comprehensive review of the current subvention system with a view to improving its efficiency and effectiveness, ensuring compliance and maintaining a balance between control and flexibility on the use of public funds by NSAs;
- (b) since the LCSD assumed the role of providing a one-stop funding service to NSAs after the dissolution of the former Hong Kong Sports Development Board in 2004, it has introduced the subvention agreement arrangement to formalise the funding relationship with NSAs. It has established a system for allocating and monitoring the use of such funding. With experience gained and upon advice from the Independent Commission Against Corruption and other government departments, the LCSD has been carrying out annual reviews of the subvention agreements and reviewing the practices and procedures regularly. Improvements introduced to the system in the past years included a mandatory requirement for NSAs to draw up an ethical code of conduct and systematic procurement guidelines, management of conflict of interests, and timely response to and

Note 4: *The six NSAs were selected to include a mix of large and small-sized NSAs with reference to the subvention they received in 2009-10.*

cooperation with the Government in investigating complaints and allegations. As an ongoing initiative to enhance operational efficiency and monitoring of the whole funding process, the LCSD has commenced a business process re-engineering study for the Scheme and, subject to availability of funds, will develop a computerised system for completion in 2011-12;

- (c) it is worthy to note that there has been a rapid development in the international and local sports arenas in recent years. Hong Kong takes part in an increasing number of major international games and its athletes have achieved remarkable success in international competitions. To further promote sports on various fronts, the Government has considerably increased the level of funding for NSAs since 2007-08. With the increase in funding support and participation in international activities, NSAs have also increased the number of subvented programmes organised, and have adjusted their development strategies for achieving results. Such developments have made the subvention system more complicated, thereby increasing the demands on both the LCSD in monitoring the Scheme and NSAs in delivering the required results; and
- (d) the Scheme has been operating for five years. Despite its continual efforts to seek improvements, the LCSD agrees with Audit that there is still room for improvement. In the light of Audit's observations and recommendations, the LCSD considers a comprehensive review of the administration of the Scheme timely. In doing so, the LCSD will take into consideration all the relevant factors, including the changing needs and resource requirements of NSAs, and the need to enhance the manpower and expertise support so that the LCSD can administer the Scheme effectively. The LCSD will also impress upon NSAs in the coming round of annual meetings in late 2009 and the workshop in early 2010 that they have a clear responsibility for making good the system and following up Audit's recommendations.

Acknowledgement

1.12 Audit would like to acknowledge with gratitude the full cooperation of the staff of the LCSD and the six NSAs during the course of the audit review.

PART 2: ALLOCATION OF SUBVENTION

2.1 This PART examines the LCSD's arrangements for allocating subvention to NSAs under the Sports Subvention Scheme.

Arrangements for subvention allocation

Subvention cycle

2.2 From July to September each year, the LCSD invites NSAs to submit applications for subvention for the coming financial year. NSAs have to submit the applications in a specified form by September. In processing the subvention applications, the LCSD holds meetings with individual NSAs to ascertain their needs.

2.3 In March of the following year, the LCSD informs NSAs of the approved subvention (Note 5) which will be incorporated into the subvention agreements between the LCSD and NSAs. NSAs have to prepare cashflow forecasts based on the approved subvention. The LCSD disburses the subvention to NSAs by four instalments (at the beginning of each quarter of the financial year) according to the cashflow forecasts.

Processing of subvention applications

2.4 An NSA has to submit the following documents in its application for subvention:

- (a) *A mid-term development plan.* The NSA has to provide in this plan a brief outline of the targets for upcoming sports programmes and the development strategy for the coming two to four financial years;
- (b) *An annual plan.* The NSA has to include in this annual plan the performance targets and the budgets for the three types of expenses (i.e. Programme Expenses, Personnel Expenses and Office Expenses) for the coming financial year; and
- (c) *A progress report.* The NSA needs to report on whether it has met the performance targets set for the last financial year.

Note 5: *A Vetting Committee of Sports Subvention (chaired by an Assistant Director of the LCSD) makes recommendations on the subvention to be granted to NSAs for approval by a Deputy Director of the LCSD.*

2.5 The LCSD takes into account the following factors in determining the subvention to be granted to an NSA:

- (a) the past expenditure pattern of the NSA;
- (b) the performance of the NSA against the targets set for the last financial year;
- (c) the development potential of the NSA's sports in terms of achievement in international competitions and international ranking of the NSA's athletes;
- (d) the staff strength of the NSA; and
- (e) the practicability and effectiveness of the annual plan and the mid-term development plan of the subvention application.

2.6 Programme Expenses usually form the largest part of the subvention granted to an NSA. The sports programmes under subvention are classified into 10 categories (see details at Appendix B). The LCSD has set out in a Handbook on Sports Subvention Scheme (the Handbook) a list of expenditure items eligible for subvention. The eligible items are classified into four groups, namely boarding and lodging expenses, staff remuneration, event-related expenses and publicity expenses. Spending limits are also set for some of the eligible items, such as airfares for overseas sports programmes.

Subvention agreements

2.7 The subvention agreements between the LCSD and NSAs formalise the funding relationship and specify the funding conditions. By entering into the subvention agreements, NSAs undertake to implement the sports programmes specified in the agreements for the promotion and development of sports. The conditions of the subvention agreements stipulate that NSAs have to ensure cost-effectiveness and accountability in the use of the subvention. The LCSD has laid down guidelines (see para. 4.3) in the Handbook for NSAs to follow in using and accounting for the subvention.

2.8 The LCSD monitors NSAs' performance by reviewing their reports and financial statements, conducting on-site inspections on their sports programmes, and conducting quality assurance checks (see details in PARTs 3 and 4). The monitoring work is carried out by the Sports Funding Office (SFO), the Sports Development Section and the Community Sports Section, each responsible for different categories of sports programmes (see Appendix B). The SFO plays a coordinating role and is responsible for updating the Handbook.

Audit observations and recommendations

2.9 Audit has reviewed the operation of the LCSD's subvention allocation system by making reference to the 2008-09 applications of the six selected NSAs (see para. 1.10).

Setting of performance targets

2.10 In the annual plan of an application for subvention, an NSA is required to set performance targets on four suggested key result areas, i.e. "Management", "Participation", "Development of athletes" and "Development of technical officials". In examining the 2008-09 annual plans submitted by the six NSAs, Audit considers that there is room for improvement in the following areas:

- (a) one NSA (NSA5) did not set any performance targets in its annual plan although it provided a brief outline of targets in its mid-term development plan (see para. 2.4(a)). The target outline did not cover the key result area "Management". However, the LCSD did not take any follow-up action;
- (b) the other five NSAs set a total of 109 performance targets in their annual plans. However, 80 (73%) of these performance targets were qualitative in nature, such as enhancing the attractiveness of local competitions and improving the skills/qualities of athletes. There is scope for developing more quantitative performance targets. Some possible quantitative performance targets are:
 - (i) number of spectators and attendance rate of local competitions under the key result area "Participation"; and
 - (ii) number of athletes to be promoted from the regional squad to the national/junior squad under the key result area "Development of athletes"; and
- (c) for the key result area "Management", only one of the six NSAs (NSA6) set a performance target on submission of reports and financial statements. This type of targets is particularly relevant as late submission of reports and financial statements is common (see PART 3).

Different approaches in determining subvention

2.11 According to the LCSD operational guidelines:

- (a) the subvention is determined on a deficit-financing basis; and

- (b) there is a maximum subvention percentage for each category of sports programme.

2.12 There were two different approaches in determining the subvention for different categories of sports programmes, as follows:

- (a) for the four categories of development programmes (see items C(I) to C(IV) of Appendix B), the subvention was determined by netting off the estimated income from the estimated expenditure (eligible for subvention), subject to a ceiling calculated by applying the maximum subvention percentage to the estimated expenditure; and
- (b) for the other six categories of sports programmes (e.g. international competitions and training of officials), the subvention was directly determined by applying the maximum subvention percentage to the estimated expenditure (without first ascertaining whether the subvention calculated by netting off the estimated income from the estimated expenditure would be a lesser amount).

Approach (b) could lead to the granting of a larger subvention than Approach (a). Case 1 is an example.

Case 1

Larger subvention granted

1. For a 2008-09 training programme of technical officials of NSA5, the estimated expenditure was \$26,680 and the estimated income was \$12,300. The subvention granted was \$18,676, which was determined by applying the maximum subvention percentage to the estimated expenditure (i.e. $\$26,680 \times 70\%$).

2. Had the subvention been determined by netting off the estimated income from the estimated expenditure (i.e. $\$26,680 - \$12,300$), it would have become \$14,380 which was \$4,296 (or 23%) less than the subvention granted (\$18,676).

Source: LCSD records

2.13 From the LCSD records, it was unclear why different approaches were used for determining the subvention for different categories of sports programmes. If it is

considered necessary to have different approaches for different categories, they should be clearly stated in the LCSD operational guidelines.

Assessment of expenditure and income estimates

2.14 According to the LCSD operational guidelines, a sports programme should be subvented on a deficit-financing basis. The LCSD staff have to vet an NSA's budgets of sports programmes to ensure that:

- (a) the expenditure estimates conform to the Handbook requirements (see para. 2.6);
and
- (b) the expenditure and income estimates (if applicable) are reasonable having regard to the preceding year's information (see para. 2.5(a)).

Audit noted that the LCSD was unable to assess the reasonableness of the estimates in two cases because the preceding year's information was not available (see Cases 2 and 3).

Case 2

Information on preceding year's expenditure not available

1. NSA3 organises a regional squad training programme on an annual basis. The LCSD granted a subvention of \$48,161 for the 2006-07 training programme based on an estimated athlete travel allowance of \$27,500 (25 athletes × 22 sessions × \$50 per athlete per session — Note 1). According to the 2006-07 accounts submitted to the LCSD in April 2008 (Note 2), the actual travel allowance was \$9,800 (**36% of the estimate**).
2. In late 2007, when the LCSD vetted the budget of the 2008-09 training programme, the 2006-07 actual expenditure information was not available. In the event, the LCSD granted a subvention of \$324,846 for this programme, based on an estimated travel allowance of \$216,000 (180 athletes × 30 sessions × \$40 per athlete per session — Note 3).
3. According to NSA3, the programme was held as scheduled in 2008-09 but no expenditure was incurred on travel allowance (i.e. resulting in a surplus of the subvention granted — Note 4).

Source: LCSD and NSA3 records

Note 1: Before 2007-08, the LCSD operational guidelines only stipulated that athlete travel allowance should be at a reasonable rate. Since 2007-08, a spending limit of \$50 per athlete per session has been specified.

Note 2: The 2006-07 accounts were due on 30 September 2007.

Note 3: NSA3 estimated that there would be 6 training teams each with 30 athletes in 2008-09 (instead of 1 team with 25 athletes in 2006-07).

Note 4: According to the subvention agreement, the unspent subvention has to be deposited in the reserve fund (see para. 3.23).

Case 3

Information on preceding year's income not available

1. NSA3 organises a local competition (league competition) on an annual basis. The LCSD granted a subvention of \$296,925 for the 2006-07 competition, based on an estimated ticket income of \$116,000. According to the 2006-07 accounts submitted to the LCSD in April 2008, the actual ticket income was \$153,507 (**132% of the estimate**).
2. In late 2007, when the LCSD vetted the budget of the 2008-09 competition, the 2006-07 actual income information was not available. In the event, the LCSD granted a subvention of \$298,805 for this competition, based on an estimated ticket income of \$116,000.
3. According to NSA3, the actual ticket income of the 2008-09 competition was \$503,206 (i.e. resulting in a surplus in the subvention granted).

Source: LCSD and NSA3 records

- 2.15 The above two cases indicate that the LCSD needs to:
- (a) remind NSAs to submit timely annual accounts so that the LCSD will have the necessary preceding year's information for vetting their budgets. Detailed audit findings and recommendations in this regard are reported in PART 3; and
 - (b) seek explanations from the NSA concerned (NSA3) for the significant variance between the estimated and the actual expenditure and income for the two 2008-09 sports programmes to see if there is any lesson to be learnt.

Vetting of budgets submitted by NSAs

2.16 Based on a sample checking of the budgets of the six NSAs (vetted by the LCSD), Audit noted that there was also room for improvement in the LCSD's vetting process, as follows:

- (a) ***Documents not properly filed.*** The vetted budgets form the basis for determining the subvention to be granted to an NSA. However, they were not properly filed and as a result, the 2007-08 vetted budgets of an NSA (NSA5) could not be located; and

- (b) **Calculation errors.** Audit noted calculation errors committed by LCSD staff in making adjustments to the 2008-09 budgets. The following are two examples:
- (i) for one overseas competition (of NSA2), because of using the wrong number of coaches in adjusting the coach allowance, the estimated expenditure was overstated by \$4,500 (1% of the correct figure of \$333,420); and
 - (ii) for one training programme (of NSA4), due to an arithmetic error in recalculation (after adjusting for some ineligible items), the estimated expenditure was understated by \$6,780 (3% of the correct figure of \$231,688).

Audit recommendations

2.17 **Audit has recommended that the Director of Leisure and Cultural Services should:**

- (a) **remind NSAs to comply with the requirement of setting performance targets in the annual plans of their subvention applications, and encourage them to set more quantitative performance targets;**
- (b) **review the different approaches in determining the subvention for different categories of sports programmes to see if they are appropriate and conform to the principles laid down in the operational guidelines;**
- (c) **monitor any significant variance between NSAs' budgets and actual outcome and seek explanations from the NSAs concerned;**
- (d) **ensure that the documents for subvention allocation purpose (such as vetted budgets of NSAs) are properly filed; and**
- (e) **remind LCSD staff to be careful in making adjustments to NSAs' budgets for subvention allocation purpose.**

Response from the Administration

2.18 The **Director of Leisure and Cultural Services** accepts the audit recommendations. She has said that the LCSD will:

- (a) remind NSAs to set performance targets and encourage them to set more quantitative performance targets in the annual plans of their subvention applications;
- (b) review the existing approaches in determining the subvention for different categories of sports programmes, and state clearly in the operational guidelines if different approaches are deemed necessary. In determining the approaches to be adopted, the LCSD will ensure that they comply with the subvention principles laid down in the operational guidelines;
- (c) closely monitor any variance between NSAs' proposed budgets and actual outcome, and request the NSAs concerned to provide explanations for the variance; and
- (d) ensure that the subvention documents are properly filed and their movement is duly recorded. Besides, the LCSD will remind its staff to be more careful in adjusting NSAs' budgets for subvention allocation purpose.

PART 3: MONITORING OF NATIONAL SPORTS ASSOCIATIONS' PERFORMANCE

3.1 This PART examines the LCSD's mechanism for monitoring NSAs' performance under the Sports Subvention Scheme.

Monitoring mechanism

3.2 To ensure that the objectives of subvention under the Sports Subvention Scheme are achieved and to enable it to account for the use of subvention, the LCSD has put in place the following mechanism for monitoring NSAs' performance:

- (a) reviews of reports and financial statements of subvented programmes submitted by NSAs at regular intervals. A summary of these reports and financial statements is shown in Table 1;
- (b) on-site inspections of subvented programmes for monitoring the progress and assessing the results achieved; and
- (c) quality assurance checks to ensure that proper accounting and internal control procedures are adopted by NSAs (see details in PART 4).

Table 1
Reports and financial statements submitted by NSAs
(July 2009)

	Report/ financial statement	Time of submission	Purpose (Note 1)
(a)	Quarterly report (covering all subvented programmes)	Within one month after the end of each quarter	For evaluating the ongoing performance of an NSA
(b)	Evaluation report (for each completed programme)	Within two months after the completion of a programme (effective from 2009-10 — Note 2)	For assessing the achievement of a programme
(c)	Statement of accounts (for each completed programme)	Within one month after the quarter during which a programme is completed	For examining the reported income and expenditure to see if they conform to the Handbook requirements and conducting a preliminary assessment of any unspent subvention due to the Government
(d)	Audited annual accounts	Within six months after the end of a financial year	For examining the reported income and expenditure to see if they conform to the Handbook requirements and determining any unspent subvention due to the Government

Source: LCSD records

Note 1: The LCSD also makes reference to these reports and financial statements in considering an NSA's application for subvention.

Note 2: For 2008-09, an evaluation report was due one month after completing a sports programme. For 2007-08 and before, an evaluation report was due one month after the end of the quarter during which a programme was completed.

Audit observations and recommendations

Quarterly reports

3.3 The approved subvention to an NSA is disbursed by four instalments at the beginning of each quarter based on the NSA's cashflow forecast (see para. 2.3). According to the Handbook, the NSA should provide the following information in a quarterly report:

- (a) the expenditure positions of subvented programmes as against the subvention instalment received by the NSA for the quarter;
- (b) changes in the staffing of subvented posts; and
- (c) explanations and suggested remedial measures for any changes to sports programmes (such as change in scope or cancellation). According to the subvention agreement, unspent subvention thus arising has to be returned to the Government or netted off from the subvention to the NSA.

3.4 *Late submission.* As mentioned in item (a) of Table 1 in paragraph 3.2, quarterly reports are due one month following the relevant quarter. Audit sample check on the six selected NSAs (see para. 1.10) revealed that there was delay in their submission of quarterly reports for the years 2007-08 and 2008-09 (see Table 2).

Table 2

**Delay in submission of quarterly reports
(2007-08 and 2008-09)**

NSA	Number of reports required to be submitted (a)	Number of overdue reports (b)	Percentage of overdue reports $(c) = \frac{(b)}{(a)} \times 100\%$
NSA1	8	8	100%
NSA2	8	2	25%
NSA3	8	8	100%
NSA4	8	7	88%
NSA5	8	8	100%
NSA6	8	8	100%
Overall	48	41 (Note)	85%

Source: Audit analysis of LCSD records

Note: Seven (48 less 41) reports were submitted on time.

3.5 Table 2 shows that four of the six NSAs (NSA1, NSA3, NSA5 and NSA6) were late in submitting all 8 quarterly reports for the two years. As at 31 July 2009, the LCSD received 36 of the 41 overdue reports after an average delay of 2.8 months (with the delay ranging from 7 days to 15.4 months). The remaining 5 (41 – 36) reports were still outstanding (Note 6). According to the LCSD operational guidelines, the LCSD should issue a reminder for any outstanding report within 10 days after the due date. However, there was again delay in issuing reminders.

Note 6: *As at 16 October 2009, all 5 outstanding reports were received.*

3.6 ***Errors and non-compliance in reporting.*** Audit examined the 43 quarterly reports received up to 31 July 2009 (7 on time and 36 delayed). Audit could not ascertain whether all these reports had been checked by LCSD staff as the report form did not contain a section for completion by LCSD staff. Audit's examination revealed the following error and non-compliance in reporting:

- (a) ***Error in reporting.*** NSA3 stated in a quarterly report that the expenditure of a sports programme was \$90,000, but the subsequent statement of accounts showed that the actual expenditure was \$6,476;
- (b) ***Staff change not reported.*** NSA1 did not report the details of a new appointee to a subvented post, in contravention of the Handbook requirement (see para. 3.3(b)); and
- (c) ***Cancellation of sports programmes not reported.*** In the 24 quarterly reports submitted by the six NSAs for the year 2007-08, the NSAs did not report any cancellation of their sports programmes (see para. 3.3(c)). However, according to the NSAs' 2007-08 audited accounts, 71 (22%) of 323 subvented programmes were in fact cancelled.

3.7 As far as could be ascertained, the LCSD had not required the NSAs concerned to improve the quality of their submitted reports. The non-reporting of cancellation of programmes, in particular, warrants the LCSD's special attention because:

- (a) the subvention agreement stipulates that an NSA shall implement the sports programmes specified therein in accordance with the subvention received. The LCSD should seek explanations from the NSA concerned for cancelling sports programmes (such as the 71 cancelled programmes mentioned in para. 3.6(c)); and
- (b) the LCSD should also take prompt action to recover from an NSA any unspent subvention arising from the cancellation of sports programmes. Table 3 shows examples of the late recovery of the unspent subvention of 2006-07.

Table 3
Late recovery of unspent subvention
(2006-07)

(a) Category of programmes	NSA3		NSA6	
	Regional squad training	Meetings/ conferences	Local competitions	Training of officials
(b) Number of cancelled programmes	2	2	1	3
(c) Unspent subvention	\$36,610	\$10,752	\$35,408	\$23,300
(d) Planned implementation period	August to December 2006	June to December 2006	April & October 2006	April 2006 to March 2007
(e) Time at which cancellation of programmes should be reported by NSA	January 2007 (3rd Quarterly Report)	January 2007 (3rd Quarterly Report)	January 2007 (3rd Quarterly Report)	April 2007 (4th Quarterly Report)
(f) Time at which unspent subvention should be recovered (Note)	April 2007	April 2007	April 2007	July 2007
(g) Time at which unspent subvention was actually recovered	April 2009	July 2008	July 2009	July 2009
(h) Delay (month — (g) less (f))	24	15	27	24

Source: Audit analysis of LCSD records

Note: The LCSD normally recovers unspent subvention by offsetting the quarterly subvention payment to the NSA concerned (see para. 2.3).

3.8 *Need to improve the quarterly report form.* The quarterly report form does not contain a section to facilitate an NSA's reporting of cancellation of programmes (see para. 3.6(c)). The report form also does not contain a section for completion by LCSD staff (see para. 3.6). The LCSD needs to improve the design of the quarterly report form.

Evaluation reports

3.9 According to the Handbook, an NSA has to submit an evaluation report for each completed sports programme using one of the specified report forms, i.e. one for local and the other for overseas programmes. With effect from 2007-08, a new report form has been adopted for overseas programmes requiring the reporting of performance targets and their extent of achievement.

3.10 *Late submission.* As mentioned in Note 2 to Table 1 in paragraph 3.2, evaluation reports were due one month after the end of the quarter concerned for 2007-08, and one month after programme completion for 2008-09. Audit sample checked the evaluation reports submitted by the six NSAs for selected sports programmes of these two years. The checking revealed that there was delay in submission (see Table 4).

Table 4**Delay in submission of evaluation reports
(2007-08 and 2008-09)**

NSA	Number of reports required to be submitted (Note 1) (a)	Number of overdue reports (b)	Percentage of overdue reports $(c) = \frac{(b)}{(a)} \times 100\%$
NSA1	1	1	100%
NSA2	8	7	88%
NSA3	8	8	100%
NSA4	16	14	88%
NSA5	11	11	100%
NSA6	7	7	100%
Overall	51	48 (Note 2)	94%

Source: Audit analysis of LCSD records

Note 1: Audit selected one category of sports programmes for each NSA for checking. The number of reports required to be submitted depended on the number of sports programmes implemented under the selected category.

Note 2: Three (51 less 48) reports were submitted on time.

3.11 Table 4 shows that four NSAs (NSA1, NSA3, NSA5 and NSA6) were late in submitting all their evaluation reports for the selected categories for the two years. As at 31 July 2009, the LCSD received 29 of the 48 overdue reports after an average delay of 4.8 months (with the delay ranging from 21 days to 20.8 months). The remaining 19 reports (48 – 29) were still outstanding (Note 7). Only a few reminders were issued for the overdue reports in 2007-08, although more frequent reminders were issued in 2008-09.

3.12 ***Inadequate reporting.*** Of the 32 evaluation reports received up to 31 July 2009 (3 on time and 29 delayed), 22 were for local and 10 for overseas programmes. The LCSD had completed checking the reports for 11 of the 22 local programmes. Audit could not ascertain whether LCSD staff had checked the 10 reports for overseas programmes as the report form did not contain a section for completion by LCSD staff. Audit examined the 32 evaluation reports and found the following inadequacies:

- (a) ***Performance target achievement not reported.*** Audit noted that two NSAs (NSA2 and NSA3) used the obsolete 2006-07 evaluation report form for reporting 7 overseas programmes held in 2007-08 (see para. 3.9). As a result, information on performance targets and their extent of achievement (required to be reported in the revised form adopted from 2007-08 onwards) was not reported. As regards local programmes, there is currently no requirement for reporting performance targets and their extent of achievement. For performance management, NSAs should be required to provide such information in evaluation reports for local programmes; and
- (b) ***Participants' feedback not reported.*** According to the Handbook, an NSA has to report participants' feedback in evaluation reports. Nevertheless, five NSAs (i.e. except NSA4) did not report such information.

Statements of accounts

3.13 With effect from 2007-08, the Handbook has required an NSA to provide detailed breakdowns of expenses in a statement of accounts using a revised form. An NSA is also required to certify that the statement has been checked and found correct.

3.14 According to the LCSD operational guidelines, on receiving an NSA's statement of accounts, the LCSD has to conduct a preliminary check on the reported expenditure to verify whether they are eligible for subvention and within the spending limits stipulated in the Handbook. After making necessary adjustments to the reported expenditure, the LCSD will assess whether there would be any unspent subvention due to the Government.

Note 7: As at 16 October 2009, all 19 outstanding reports were received.

3.15 *Late submission.* As mentioned in item (c) of Table 1 in paragraph 3.2, a statement of accounts is due one month after the end of the quarter during which a sports programme is completed. Audit sample checked the statements of accounts submitted by the six NSAs for selected categories of sports programmes of 2007-08 and 2008-09. The checking revealed that there was delay in submission (see Table 5).

Table 5

**Delay in submission of statements of accounts
(2007-08 and 2008-09)**

NSA	Number of statements required to be submitted (Note 1) (a)	Number of overdue statements (b)	Percentage of overdue statements $(c) = \frac{(b)}{(a)} \times 100\%$
NSA1	1	1	100%
NSA2	8	5	63%
NSA3	8	8	100%
NSA4	16	14	88%
NSA5	11	11	100%
NSA6	7	7	100%
Overall	51	46 (Note 2)	90%

Source: Audit analysis of LCSD records

Note 1: Audit selected one category of sports programmes for each NSA for checking. The number of statements required to be submitted depended on the number of sports programmes implemented under the selected category.

Note 2: Five (51 less 46) statements were submitted on time.

3.16 Table 5 shows that four of the NSAs (NSA1, NSA3, NSA5 and NSA6) were late in submitting their statements of accounts for the selected categories for the two years. As at 31 July 2009, the LCSD received 35 of the 46 overdue statements after an average delay

of 4.7 months (with the delay ranging from 21 days to 20.8 months). The remaining 11 (46 – 35) statements were still outstanding (Note 8). Only a few reminders were issued for the overdue statements in 2007-08, but more frequent reminders were issued in 2008-09.

3.17 ***Non-compliance in reporting.*** Of the 40 statements of accounts received up to 31 July 2009 (5 on time and 35 delayed), LCSD staff had only checked 7 statements. Audit examined the 40 statements and found the following non-compliance:

- (a) ***Required information not completely provided.*** Three NSAs (NSA2, NSA3 and NSA5) used the obsolete 2006-07 form for preparing 10 statements of accounts for 2007-08 (see para. 3.13). As a result, the required information on detailed breakdowns of expenses was not provided in 5 statements (of NSA3); and
- (b) ***Statements of accounts certified by unauthorised persons.*** According to the Handbook, a statement of accounts has to be certified by an authorised person (e.g. Chairman or Secretary) of an NSA. Audit noted that for one NSA (NSA5), 10 out of 11 submitted statements were certified by an unauthorised person.

Audited annual accounts

3.18 According to the subvention agreement, an NSA has to submit audited annual accounts within six months after the end of a financial year. The LCSD examines the expenditure and income in the accounts to see if they conform to the Handbook requirements. After making necessary adjustments to the expenditure and income, the LCSD determines whether there is any unspent subvention due to the Government.

3.19 ***Late submission.*** Audit reviewed the submission of the 2007-08 audited accounts (due on 30 September 2008 — see item (d) of Table 1 in para. 3.2) by the six NSAs and found that none of them was submitted on time. Notwithstanding the LCSD's reminders, there was an average delay in submission of 2.3 months. The longest delay was 5.2 months (see Table 6 for details). The late submission of accounts and other reports/financial statements (see paras. 3.4, 3.10 and 3.15) indicated that it was necessary to tighten the management control. In this connection, the LCSD may wish to consider invoking the subvention agreement provision of withholding subvention for repeated cases of late submissions.

Note 8: *As at 16 October 2009, all 11 outstanding statements of accounts were received.*

Table 6**Delay in submission of 2007-08 audited accounts**

NSA	Date of submission	Delay (Note) (month)
NSA1	4.11.2008	1.1
NSA2	31.10.2008	1.0
NSA3	6.3.2009	5.2
NSA4	6.11.2008	1.2
NSA5	9.2.2009	4.3
NSA6	28.10.2008	0.9

Source: LCSD records

Note: Delay is counted from the due date of 30 September 2008.

3.20 ***Long time taken to process submitted accounts.*** Audit found that the LCSD had taken a long time to process the audited annual accounts. Table 7 shows the time taken by the LCSD to process the 2006-07 accounts.

Table 7
Time taken to process 2006-07 accounts

NSA	Date of submission of accounts (a)	Date of completion of processing (b)	Time taken to process (c) = (b) – (a) (month)
NSA1	13.2.2008	15.10.2009	20.1
NSA2	5.11.2007	8.7.2009	20.1
NSA3	1.4.2008	17.4.2009	12.5
NSA4	7.12.2007	25.3.2009	15.6
NSA5	27.12.2007	17.3.2009	14.7
NSA6	6.12.2007	27.4.2009	16.7

} average
16.6

Source: LCSD records

3.21 Based on Table 7, the average time taken by the LCSD to process the annual accounts was 16.6 months. The longest time taken was 20.1 months. In September 2009, in response to Audit's enquiry, the LCSD said that there were discrepancies in many audited annual accounts and supporting information was often lacking. It took time to clarify the discrepancies and urge the NSAs to submit the required information. In Audit's view, while the processing of annual accounts may not be always straightforward, there is still a need to complete the processing within a reasonable time to ensure that there is no delay in determining any unspent subvention.

3.22 *Unspent balance of lump sum subvention.* For four categories of sports programmes (overseas international competitions, national/junior squad training, training of officials, and meetings/conferences), the LCSD allocated a lump sum subvention for each of these categories. According to the subvention agreement, an NSA shall implement the sports programmes and any unspent subvention of cancelled programmes shall be returned to the Government (see Note 9 to para. 3.23). The LCSD's practice was that it would recover the unspent subvention if all programmes of a lump sum subvention were cancelled, but allowed the NSA to retain the unspent subvention as reserve fund if any one of the programmes was carried out. Audit considers that this practice should be reviewed because it may not be conducive to encouraging an NSA to implement all programmes of a lump sum subvention when the NSA can retain the unspent balance of cancelled programmes.

Based on a review of the six NSAs' 2006-07 programmes, Audit noted that 31 (26%) out of 117 lump sum subvented programmes were cancelled, whereas only 15 (9%) out of 166 individually subvented programmes were cancelled.

3.23 *Error in calculating reserve fund balance.* According to the subvention agreement, any unspent subvention due to the exercise of economy or the receipt of sponsorship or donation may be deposited in the reserve fund (Note 9). An NSA can apply to the LCSD for using the reserve fund to finance, for example, staff expenses and programme expenses. The reserve fund balance is limited to 25% of the total subvention of the pertinent financial year. Any balance above the 25% limit is required to be returned to the Government or netted off from the subvention of the following financial year. Audit noted that the LCSD had committed the same error (see Case 4) in calculating the reserve fund balance for four (NSA1, NSA2, NSA3 and NSA6) of the six NSAs.

Case 4

Error in calculating reserve fund balance

1. In April 2009, the LCSD calculated the 2006-07 reserve fund balance of NSA6. For 2006-07, the reserve fund had an opening balance of \$505,628 and a net addition of \$251,762 (i.e. unspent subvention of \$282,006 less approved reserve fund expenditure of \$30,244). Therefore, the closing balance of the reserve fund for 2006-07 should be \$757,390 (\$505,628 + \$251,762).

2. However, the LCSD included in its calculation of the **2006-07** reserve fund balance an expenditure of \$343,728 approved in **2008-09**. Hence the closing balance was miscalculated as \$413,662 (\$757,390 – \$343,728).

3. As the understated reserve fund balance was within the 25% limit of the 2006-07 subvention ($\$2,566,947 \times 25\% = \$641,736$), the LCSD did not recover from NSA6 \$115,654 (\$757,390 – \$641,736), being the amount above the 25% limit.

Source: LCSD records

Note 9: *Unspent subvention due to the delay, change in scope or cancellation of sports programmes has to be returned to the Government.*

3.24 ***Recovery of amounts due from NSAs.*** Audit noted that the LCSD was slow in recovering amounts due from the six NSAs, such as the unspent subvention of cancelled sports programmes and reserve fund balance in excess of the 25% limit (see para. 3.23). For example, in January 2009, the LCSD informed an NSA (NSA2) that an amount of \$170,029, being the 2005-06 reserve fund balance in excess of the 25% limit, would be deducted from the quarterly subvention payment (see para. 2.3). However, no deduction was made from the quarterly subvention payment of either April or July 2009.

Audit recommendations

3.25 **Audit has recommended that the Director of Leisure and Cultural Services should:**

Late submission of reports and financial statements

- (a) **remind NSAs to submit timely reports and financial statements in accordance with the subvention requirements;**
- (b) **ensure that LCSD staff take timely follow-up action on late submissions in accordance with the operational guidelines;**
- (c) **consider invoking the subvention agreement provision of withholding subvention for repeated cases of late submission of reports and financial statements;**

Inadequacies and non-compliance in reporting

- (d) **remind NSAs to properly prepare reports and financial statements in accordance with the Handbook requirements;**
- (e) **revise the report forms to:**
 - (i) **facilitate NSAs to report cancellation of programmes in quarterly reports (see para. 3.8);**
 - (ii) **require LCSD staff to sign off quarterly reports and evaluation reports for overseas programmes after their checking (see paras. 3.8 and 3.12); and**
 - (iii) **require NSAs to report performance target achievement for local programmes in evaluation reports (see para. 3.12(a));**

Follow-up action on submitted reports and financial statements

- (f) **provide further guidelines (including checklists) for LCSD staff to ensure that:**
 - (i) **their checking of reports and financial statements submitted by NSAs is complete and comprehensive;**
 - (ii) **explanations are sought from the NSAs concerned for cancellation of sports programmes (see para. 3.7(a)); and**
 - (iii) **the calculation of NSAs' reserve fund balance is correct (see para. 3.23);**
- (g) **take measures to expedite the processing of annual accounts (see para. 3.20);**
- (h) **review the practice of allowing an NSA to retain as reserve fund the unspent lump sum subvention arising from cancellation of programmes (see para. 3.22); and**
- (i) **take prompt action to recover any unspent subvention required to be returned to the Government (see paras. 3.7(b), 3.23 and 3.24).**

Response from the Administration

3.26 The **Director of Leisure and Cultural Services** accepts the audit recommendations. She has said that the LCSD:

Late submission of reports and financial statements

- (a) will issue timely reminders to remind NSAs of the timely submission of quarterly reports and financial statements;
- (b) will consider invoking the provision of withholding subvention for repeated cases of late submission. Having obtained legal advice, the LCSD will add a new clause to the subvention agreement for 2010-11 so that it could take retrospective sanction against NSAs which fail to fulfil obligations stipulated in the agreement, including late submission of reports;

Inadequacies and non-compliance in reporting

- (c) at the coming round of annual meetings, will remind NSAs to use the updated report forms and properly prepare the reports and financial statements according to requirements stipulated in the Handbook;
- (d) will revise the quarterly and evaluation report forms as recommended by Audit;

Follow-up action on submitted reports and financial statements

- (e) will review the internal guidelines to ensure that LCSD staff will check the submitted reports and financial statements carefully and comprehensively, and seek explanations for any cancellation of programmes;
- (f) understands that the prevailing practice of allowing NSAs to retain the unspent subvention of cancelled programmes under lump sum subvention may not be conducive to encouraging NSAs to implement all of their programmes. The LCSD will carry out a review of the lump sum subvention accordingly; and
- (g) will expedite the processing of audited annual accounts submitted by NSAs and the recovering of any unspent subvention. The LCSD is reviewing the calculation of the reserve fund balance and will recover funds from the NSAs with reserve balance exceeding the limit.

On-site inspections of subvented programmes

3.27 On-site inspections are one of the LCSD's measures for monitoring NSAs' performance in implementing sports programmes. According to the LCSD operational guidelines, the LCSD staff responsible for monitoring NSAs are required to:

- (a) conduct on-site inspections and get feedback from officials (such as umpires) and participants; and
- (b) prepare inspection reports for supervisors' assessment and give feedback to the NSAs concerned, after conducting on-site inspections.

3.28 The LCSD staff usually arrange for on-site inspections one month ahead. The inspection schedules are subject to prior agreement of their supervisors since they may have to conduct on-site inspections outside office hours.

Audit observations and recommendations

On-site inspection guidelines

3.29 The LCSD has laid down in the operational guidelines that, for subvented programmes held in non-LCSD venues, at least 10% inspection should be conducted. The selection criteria for inspection are in the following priority:

- (a) new events/pilot schemes;
- (b) recurrent events held in new venues;
- (c) once every two years for recurrent/repeated events; and
- (d) any other events subject to the assessment made by supervisors or unit head.

However, there are no laid down guidelines for inspecting subvented programmes held in LCSD venues despite that most of the programmes were held therein.

3.30 Audit reviewed the percentages of the six NSAs' sports programmes held in 2007-08 and 2008-09 which were inspected by the LCSD. Three categories of sports programmes were selected for the review (namely local international competitions, national/junior squad training programmes and local competitions). Table 8 shows the results.

Table 8
On-site inspections of local sports programmes
(2007-08 and 2008-09)

NSA	Number of local international competitions		Number of national/junior squad training programmes		Number of local competitions	
	Organised	Inspected	Organised	Inspected	Organised	Inspected
NSA1	1	1	4 (Note 1)	0	17	0
NSA2	3	3	3	0	2	0
NSA3	2	1	7	0	10 (Note 1)	0
NSA4	0	0	10	0	14	2
NSA5	0	0	2	1	11	6
NSA6	2	2	3	0	4	0
Total	8	7	29	1	58	8
Inspection percentage (Note 2)	88%		3%		14%	

Source: Audit analysis of LCSD records

Note 1: Two of the four NSA1 programmes and eight of the ten NSA3 programmes were held in both LCSD and non-LCSD venues. All other programmes were solely held in LCSD venues.

Note 2:
$$\text{Inspection percentage} = \frac{\text{Number of programmes inspected}}{\text{Number of programmes organised}} \times 100\%$$

3.31 Table 8 shows that:

- (a) the inspection percentages varied among different categories of programmes, ranging from 88% for local international competitions to 3% for national/junior squad training programmes. The LCSD needs to lay down guidelines to ensure that there is reasonable coverage of different categories of programmes; and

- (b) for national/junior squad training programmes of NSA1 and local competitions of NSA3 held in non-LCSD venues, the laid down guidelines were not complied with as no inspection was carried out for two years (see para. 3.29). There is a need for regular reviews to ensure that the laid down guidelines are complied with.

Audit recommendations

3.32 **Audit has recommended that the Director of Leisure and Cultural Services should:**

- (a) **lay down guidelines on inspecting sports programmes held in LCSD venues, taking into account risk factors and the need for reasonable coverage; and**
- (b) **conduct management reviews to ensure that the laid down guidelines on inspecting NSAs' sports programmes are complied with by LCSD staff.**

Response from the Administration

3.33 The **Director of Leisure and Cultural Services** accepts the audit recommendations. She has said that the LCSD will:

- (a) provide guidelines for the inspection of sports programmes held in LCSD venues, taking into account risk factors and the need for reasonable coverage of different categories of programmes; and
- (b) conduct management reviews to ensure compliance with the inspection guidelines by LCSD staff.

PART 4: INTERNAL CONTROLS OF NATIONAL SPORTS ASSOCIATIONS

4.1 The subvention agreement stipulates that NSAs have to exercise proper internal controls to ensure cost-effectiveness and accountability in the use of the subvention. This PART examines the LCSD's arrangements for monitoring NSAs' compliance with this requirement.

Accounting and internal control requirements

4.2 The subvention agreement provides that an NSA has to:

- (a) keep separate accounts for the subvention and the reserve fund under the Sports Subvention Scheme;
- (b) properly account for the expenditure chargeable to the subvention. The savings arising therein may be deposited into the reserve fund;
- (c) adopt proper internal controls to ensure that the subvention and the reserve fund are used in a cost-effective and accountable manner; and
- (d) comply with the principles and guidelines laid down in the Handbook.

4.3 **Guidelines.** The Handbook provides guidelines for NSAs on the following aspects:

- (a) **Preparing accounts.** The Handbook contains a detailed listing of expenditure items eligible for subvention and their respective spending limits;
- (b) **Developing procurement guidelines and code of conduct.** The Handbook provides guiding principles for NSAs to prepare their procurement guidelines and code of conduct (such as declaration of interest); and
- (c) **Adopting proper internal controls.** The Handbook provides procedural guidelines for some internal control areas (such as management of petty cash and management of cash advances).

4.4 **Training.** From time to time, the LCSD has organised workshops and seminars to provide training for NSAs and share with them good management practices. For example, in 2006, the LCSD jointly organised a seminar with the Independent Commission Against Corruption to refresh NSAs on topics of conflict of interest. In January and

March 2007, the LCSD organised two training workshops for NSAs (i.e. one on corporate governance and the other on new measures of the Sports Subvention Scheme).

LCSD's monitoring measures

4.5 The LCSD monitors NSAs' use of the subvention by requiring them to engage professional accounting firms to audit the accounts of subvented activities, and by conducting quality assurance checks. Such quality assurance checks are conducted by the LCSD's Quality Assurance Section (QAS). The objectives of quality assurance checks are to review:

- (a) NSAs' use of the subvention by sample checking supporting invoices/vouchers to ensure that the Handbook requirements are complied with; and
- (b) NSAs' internal control procedures to see if there is room for improvement.

4.6 In November 2005, the QAS started to conduct quality assurance checks on NSAs. In July 2006, the LCSD formalised the arrangement of conducting quality assurance checks on a three-year-cycle basis. The QAS completed the first cycle of checks in March 2009 and had identified:

- (a) common weaknesses in NSAs' internal controls, such as:
 - (i) receipt vouchers were not properly checked/authorised; and
 - (ii) required number of quotations were not obtained in procuring goods and services; and
- (b) common cases of non-compliance with the Handbook requirements in preparing financial statements, such as:
 - (i) ineligible expenditure items; and
 - (ii) expenditure in excess of the spending limits.

4.7 The QAS has forwarded its findings and recommendations (in the form of inspection reports) to the SFO for necessary action (such as reducing the subvention to an NSA by the amount of expenditure claims not eligible for subvention). The reports have also been sent to the NSAs concerned for taking necessary follow-up action.

Audit observations and recommendations

QAS recommendations not promptly followed up

4.8 Audit found that the SFO took a long time to follow up the QAS recommendation to adjust the subvention to one of the NSAs (see Case 5). As far as could be ascertained, the senior management of the LCSD was not involved in monitoring the implementation of the QAS recommendations.

Case 5

Long time taken to follow up QAS recommendation

Date	Event
February 2008	The QAS completed a quality assurance check on NSA5.
May 2008	The QAS recommended in its inspection report that the SFO should reduce the subvention for a sports programme by \$1,117, being ineligible expenditure claims found in NSA5's 2006-07 accounts.
July 2008	The SFO forwarded the inspection report to NSA5 for its follow-up action on other recommendations of the inspection report (such as rectifying some internal control weaknesses).
March 2009	In calculating the amount of 2006-07 unspent subvention of NSA5 that should be transferred to the reserve fund, the SFO did not take into account the QAS recommendation to reduce the subvention for the above sports programme.
June 2009	The SFO noted the unspent subvention and was consulting NSA5 on its transfer to the reserve fund.

Source: LCSD and NSA5 records

Need to render further assistance to NSAs

4.9 As mentioned in paragraph 4.6, the QAS has found common internal control weaknesses and reporting errors in NSAs' annual accounts. Audit notes from the feedback of some NSAs that their office-bearers and committee members are volunteers with limited accounting knowledge. They have full-time jobs and can only contribute to their NSAs' activities on a part-time basis. To prevent recurrence of similar problems, Audit considers that the LCSD needs to:

- (a) organise more training for NSAs to help them improve their internal controls and comply with the laid down requirements. It is pertinent to note that the last training was held in March 2007 (see para. 4.4), more than two years ago; and
- (b) review the adequacy of existing guidelines provided to NSAs.

Audit recommendations

4.10 **Audit has recommended that the Director of Leisure and Cultural Services should:**

QAS recommendations not promptly followed up

- (a) **lay down procedures to follow up the QAS findings and recommendations;**
- (b) **ensure that the senior management regularly monitors the implementation of the QAS recommendations;**

Need to render further assistance to NSAs

- (c) **organise more training for NSAs to help them improve their internal controls and comply with the laid down requirements in preparing accounts; and**
- (d) **review the adequacy of existing guidelines on internal controls provided to NSAs.**

Response from the Administration

4.11 The **Director of Leisure and Cultural Services** accepts the audit recommendations. She has said that the LCS D:

QAS recommendations not promptly followed up

- (a) has provided NSAs with copies of the QAS findings and recommendations, together with instructions on specific areas of improvement, for rectification by the NSAs concerned. To enhance monitoring, the LCS D will lay down procedures for its staff to follow up expeditiously the QAS recommendations and report to the senior management the progress; and

Need to render further assistance to NSAs

- (b) completed, in March 2009, the first round of quality assurance checks on the 58 NSAs with shortcomings identified. The LCSD plans to organise a workshop with the Independent Commission Against Corruption and audit professionals in early 2010 to advise NSAs on areas of improvement regarding their internal controls and compliance with the laid down requirements in preparing accounts.

Audit examination

4.12 The QAS completed quality assurance checks on the six NSAs during the period January 2006 to February 2008. From May to July 2009, Audit visited the six NSAs to review their progress of implementing the QAS recommendations. Audit findings on NSAs' internal controls are reported in paragraphs 4.13 to 4.15 and those on NSAs' annual accounts are reported in paragraphs 4.18 to 4.29.

Internal controls

4.13 In reviewing the internal controls of the six NSAs, Audit made reference to the QAS inspection reports to see if the recommendations had been implemented. Audit also examined other areas not covered by the QAS to see if there was further room for improvement.

Audit observations and recommendations

Internal control problems

4.14 Audit examined the internal controls of the six NSAs and found that there were similar internal control problems to those identified in the quality assurance checks (see para. 4.6(a)). The results of the audit examination are summarised in Table 9.

Table 9
Common internal control weaknesses of NSAs

Internal control weakness	Number of NSAs with the control weakness
(A) Processing of receipts	
Receipt vouchers were not properly checked/authorised.	5
Unused official receipts were not properly controlled by a register.	4
(B) Procurement	
The required number of verbal/written quotations were not obtained in accordance with the NSA's procurement guidelines.	3
The procurement quotations obtained were not properly documented and filed.	4
(C) Operation of petty cash	
Surprise cash counts were not conducted periodically.	3 (out of 5 NSAs which maintained petty cash)
(D) Operation of cash advances	
No standard forms were used for the disbursement and clearance of cash advances.	3
No ceiling was set on the amounts of cash advances.	4
No time limit was set on the clearance of cash advances.	5
(E) Management of fixed assets	
Inventory taking of fixed assets was not conducted periodically.	2

Source: Audit examination of NSAs' procedures

Other room for improvement

4.15 For the six NSAs, Audit noted that there was further room for improvement in their internal controls:

- (a) the procurement guidelines and the code of conduct of one NSA (NSA2) were not adequate. For example, the guidelines did not specify the number of quotations required to be obtained in a purchase, and the code did not specify the procedure for declaration of interests; and
- (b) all six NSAs did not circulate their procurement guidelines regularly to office-bearers and staff, and five NSAs (i.e. except NSA5) did not circulate their code of conduct regularly.

Audit recommendations

4.16 **Audit has recommended that the Director of Leisure and Cultural Services should:**

- (a) **require NSAs to provide progress reports on their implementation of the QAS recommendations;**
- (b) **follow up with the six NSAs the rectification of the control weaknesses identified by Audit;**
- (c) **review the procurement guidelines and the code of conduct submitted by NSAs to ensure that they are properly prepared based on the guiding principles provided in the Handbook; and**
- (d) **remind NSAs to comply with the laid down requirement of circulating their procurement guidelines and code of conduct to office-bearers and staff at regular intervals.**

Response from the Administration

4.17 The **Director of Leisure and Cultural Services** accepts the audit recommendations. She has said that the LCSD:

- (a) will consult NSAs on a practicable approach to report progress on their implementation of the QAS recommendations;
- (b) will follow up with the six NSAs on the rectification of the control weaknesses identified by Audit;

- (c) will conduct an overall review of the procurement guidelines and the code of conduct submitted by NSAs to ensure that they comply with the Handbook; and
- (d) reminded NSAs in writing in May 2008 to circulate to their office-bearers and staff their code of conduct, procurement guidelines and other internal rules and instructions at regular intervals. The LCSD will keep on reminding NSAs in this regard at the annual meetings.

Reporting errors in annual accounts

4.18 Audit conducted a review to see whether the six NSAs had taken measures to prevent recurrence of reporting errors in their annual accounts found by the QAS (see para. 4.6(b)). For this purpose, Audit selected for examination 40 programme accounts from the 2007-08 accounts of the NSAs (Note 10).

Audit observations and recommendations

Reporting errors

4.19 ***Ineligible expenditure claims.*** Audit found that in the 2007-08 accounts, there were similar reporting errors to those the QAS found. Of the 40 programme accounts examined, there were 27 (67.5%) accounts in which expenditure claims ineligible for subvention were included. Cases 6 and 7 are examples.

Case 6

Ineligible expenditure claims

1. NSA2 participated in an overseas international competition in November 2007. The programme account included three expenditure claims, i.e. the airfare, airport tax and accommodation of a cameraman totalling \$5,750.
2. According to the Handbook, these three claims were ineligible for subvention and should not be included in the programme account.

Source: NSA2 records

Note 10: *The 2008-09 accounts were not yet available during Audit's visits.*

Case 7

Ineligible expenditure claim

1. An office-bearer of NSA6 participated in an overseas conference in September 2007. The programme account included a local transport expenditure claim of \$1,904.9.
2. Audit examination revealed that this expenditure claim included an amount of \$1,312.4, being the train fare for a round trip outside the city of the conference. According to the Handbook, this amount was ineligible for subvention and should not be included in the programme account.

Source: NSA6 records

The LCSD needs to remind NSAs that they should only include eligible expenditure claims in their annual accounts.

4.20 *Spending limits exceeded.* Of the 40 programme accounts examined, there were 15 (37.5%) accounts having expenditure claims that exceeded the spending limits. Case 8 is an example.

Case 8

Spending limits exceeded

1. NSA2 organised a local competition in 2007-08. The programme account included an expenditure claim of \$8,250 for the purchase of 165 prize medals at \$50 each.
2. According to the Handbook, the spending limit for the purchase of prize medals was \$25 each, i.e. \$4,125 for 165 prize medals. This expenditure claim exceeded the spending limit by \$4,125 (\$8,250 – \$4,125).

Source: NSA2 records

4.21 Apart from the above case, there were other common cases of expenditure exceeding the spending limits in the NSAs' programme accounts. Such expenditure included:

- (a) travelling to and from the Hong Kong International Airport (the spending limit is \$200 per person);
- (b) transport of equipment (the spending limits are \$200/\$700/\$1,000 per trip for hiring a van/lorry/crane lorry);
- (c) purchase of uniform (the spending limits are \$1,200 per person per year for formal dress and \$1,000 per person for sports gear); and
- (d) printing of publicity materials (there are different spending limits for different categories of sports programmes).

The LCSD needs to remind NSAs that they can only charge eligible expenditure, up to the spending limits, to the subvention of sports programmes.

4.22 *Omission of income.* Subvention is granted to sports programmes on a deficit-financing basis (see para. 2.11(a)). Therefore, it is necessary for NSAs to report correctly not only the expenditure but also the income. Of the 40 programme accounts examined, there were 4 (10%) accounts in which some income items were not reported. Case 9 is an example.

Case 9

Omission of income

1. NSA3 organised a local competition with a series of matches held from March to July 2007. NSA3 had ticket income from some of these matches.
2. In the programme account, the net income (i.e. ticket income less venue charges) was reported for the months of May and July but not for the months of April and June. As a result, the income of this programme was understated by \$225,025.

Source: NSA3 records

4.23 *Non-reporting of bank interest.* According to the subvention agreement, an NSA has to report in the annual accounts the bank interest income derived from the subvention funds. The LCSD has advised NSAs to deposit the interest income in the reserve fund. For 2007-08, Audit found that:

- (a) for three NSAs (NSA1, NSA3 and NSA6), the interest income had not been reported;
- (b) for two NSAs (NSA4 and NSA5), the interest income of all the funds, instead of the subvention funds, had been reported. The income had not been deposited in the reserve fund; and
- (c) for one NSA (NSA2), the interest income of the subvention funds had been reported, but had not been deposited in the reserve fund.

4.24 Audit found that the six NSAs had not kept the subvention funds and their own funds in separate bank accounts. This had given rise to difficulties in reporting the bank interest income in the annual accounts. This problem had also been pointed out by the auditor of one of the NSAs (NSA5). NSAs should be required to keep separate bank accounts for the subvention funds to facilitate their reporting of bank interest income (Note 11).

Other non-compliance

4.25 *Issue of complimentary tickets.* The Handbook requires that the issue of complimentary tickets by an NSA shall not affect the expenditure or create a negative impact on the income from the sale of tickets. The NSA shall seek the LCSD's consent for the issue of complimentary tickets and shall not allocate more than 5% of the tickets of an event as complimentary tickets.

4.26 Audit noted that for a local competition held in 2007, the NSA concerned (NSA3) did not comply with the above requirements. The NSA did not seek the LCSD's consent to issue complimentary tickets. The number of complimentary tickets issued also exceeded the 5% limit. For example, 250 complimentary tickets (i.e. 14% of the tickets) were issued for one of the matches. The LCSD needs to remind NSAs to comply with the requirements on the issue of complimentary tickets.

Note 11: *Three (NSA2, NSA3 and NSA5) of the six NSAs had since 2008-09 kept the subvention funds and their own funds in separate bank accounts.*

Audit arrangements for annual accounts

4.27 The subvention agreement requires an NSA to submit audited annual accounts of the subvention and the reserve fund within six months after the end of a financial year. Before 2008-09, the LCSD only provided the following sample auditor report in the Handbook for NSAs' reference without any elaboration.

AUDITOR'S REPORT
TO THE EXECUTIVE COMMITTEE OF XXX ASSOCIATION

We have examined the annexed statement of income and expenditure for the period from 1 April 2xxx to 31 March 2xxx with the records and vouchers maintained by (name of sports association) and certify that they are in accordance therewith.

4.28 Based on the sample auditor report, there was no requirement for an NSA's auditor to check and express an opinion on whether the NSA's annual accounts had been prepared in accordance with the LCSD's laid down requirements. This was unsatisfactory in view of the reporting errors in annual accounts as found by the QAS and by Audit (see paras. 4.6(b) and 4.18 to 4.24).

4.29 The subvention agreements for 2008-09 and onwards stipulate that the auditor report on an NSA's annual accounts shall contain an expression of opinion on the NSA's compliance with the subvention agreement, and all rules and instructions issued by the Government. However, Audit has noted that there is still room for improvement in the following areas:

- (a) the LCSD had not revised the sample auditor report in the Handbook to take into account the new audit requirements. This might cause confusion about the auditor's duties and responsibilities; and
- (b) based on Audit's enquiries with the six NSAs, they used the same auditors for auditing their own accounts and the accounts of subvented activities. However, the NSAs had not issued engagement letters to set out the scope of the audit of the accounts of subvented activities. As such, there was no assurance that the LCSD's stipulated audit requirements had been clearly communicated to the NSAs' auditors. In this connection, Audit noted that three (NSA1, NSA4 and NSA6) of the six NSAs had not submitted audited accounts of reserve funds for 2007-08.

Audit recommendations

4.30 **Audit has recommended that the Director of Leisure and Cultural Services should:**

Reporting errors and other non-compliance

- (a) **remind NSAs to follow the Handbook requirements in:**
 - (i) **preparing their annual accounts, including only eligible expenditure items up to the stipulated spending limits (see paras. 4.19 to 4.21);**
 - (ii) **reporting income in their annual accounts (see para. 4.22); and**
 - (iii) **issuing complimentary tickets (see paras. 4.25 and 4.26);**
- (b) **require NSAs to keep separate bank accounts for subvention funds to facilitate reporting of bank interest income and transferring of the same to the reserve fund (see paras. 4.23 and 4.24);**
- (c) **in processing the 2007-08 accounts of the six NSAs, follow up the reporting errors identified by Audit and check whether there are similar reporting errors in other NSAs' annual accounts (see paras. 4.19 to 4.24);**

Audit arrangements for annual accounts

- (d) **revise the sample auditor report in the Handbook to take into account the audit requirements stipulated by the subvention agreement (see para. 4.29(a)); and**
- (e) **require NSAs to issue engagement letters to their auditors, clearly setting out the stipulated requirements for the audit of annual accounts under the subvention agreement (see para. 4.29(b)).**

Response from the Administration

4.31 **The Director of Leisure and Cultural Services** accepts the audit recommendations. She has said that the LCSD will:

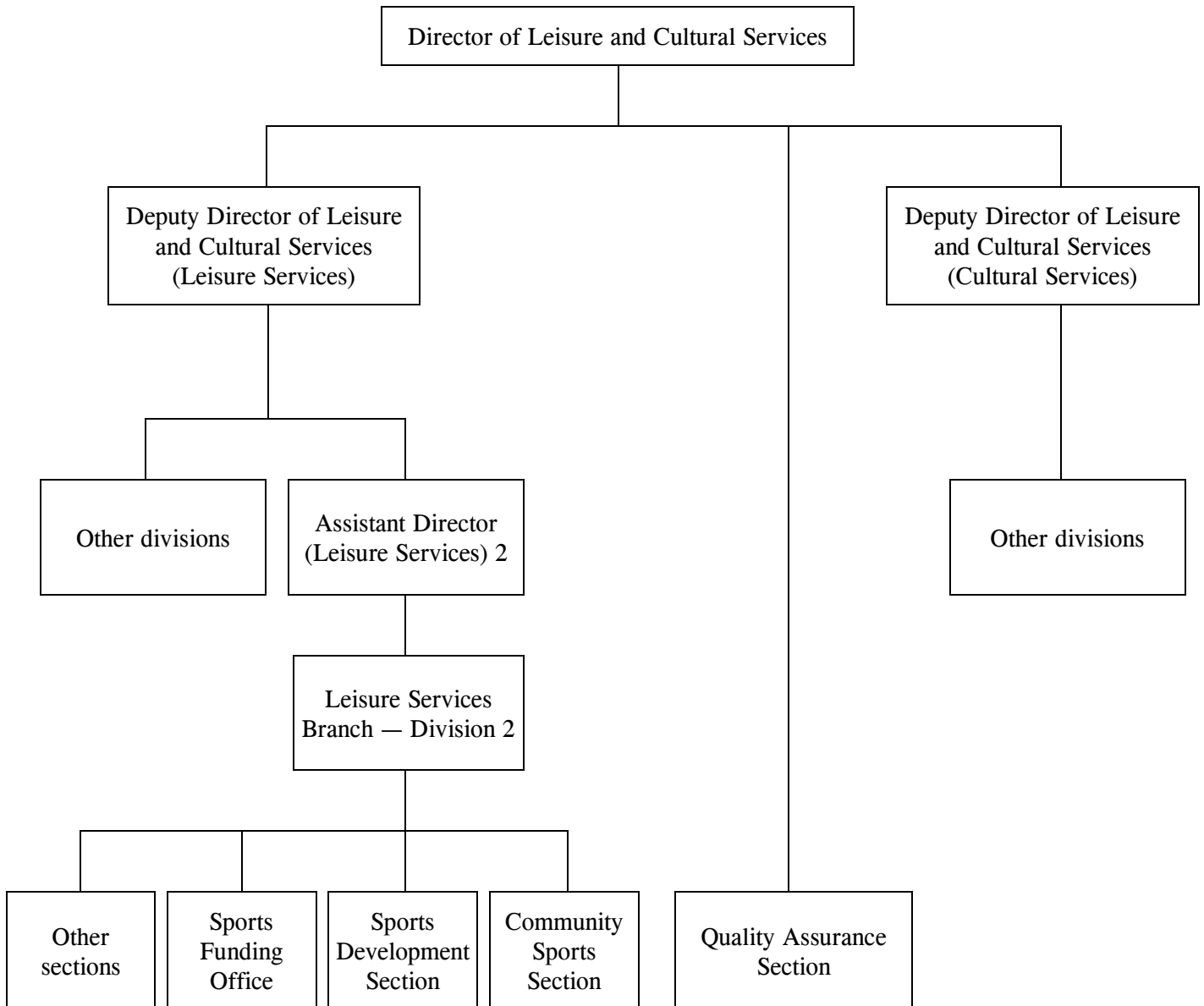
Reporting errors and other non-compliance

- (a) remind NSAs to prepare their annual accounts properly by stating clearly the amount of income, the eligible expenditure and the excessive expenditure absorbed by NSAs;
- (b) remind NSAs to report the amount of complimentary tickets issued, and to keep separate bank accounts for the subvention funds to facilitate reporting of bank interest;
- (c) in processing the 2007-08 annual accounts of the six NSAs, follow up the reporting errors identified by Audit, and at the same time, check and rectify similar errors in other NSAs' annual accounts;

Audit arrangements for annual accounts

- (d) seek assistance from audit professionals and try to provide a sample auditor report and a sample engagement letter for NSAs' reference; and
- (e) remind NSAs to issue to their auditors engagement letters which clearly specify the stipulated requirements for the audit of annual accounts under the subvention agreement.

**Leisure and Cultural Services Department
Organisation chart (extract)
(1 August 2009)**



Source: LCSD records

Appendix B
(paras. 2.6, 2.8 and
2.12(a) refer)

Sports programmes supported by Sports Subvention Scheme

Category	Sports programmes	Responsible unit
<i>International competitions</i>		
A(I)	Held outside Hong Kong	Sports Funding Office
A(II)	Held in Hong Kong	
<i>Squad training programmes</i>		
B(I)	National/junior squad training programmes	Sports Funding Office
B(II)	Regional squad training programmes	Sports Funding Office/ Sports Development Section
<i>Development programmes</i>		
C(I)	Development schemes	Sports Funding Office/ Sports Development Section
C(II)	School Sports Programmes	Sports Development Section
C(III)	Local competitions	Sports Funding Office
C(IV)	Community Sports Club Project	Community Sports Section
<i>Training of officials</i>		
D(I)	Training of officials	Sports Funding Office
D(II)	Meetings/conferences	

Source: LCSD records

Acronyms and abbreviations

ASDF	Arts and Sport Development Fund
Audit	Audit Commission
LCSD	Leisure and Cultural Services Department
NSA	National Sports Association
QAS	Quality Assurance Section
SFO	Sports Funding Office