

Report No. 53 of the Director of Audit — Chapter 1

ADMINISTRATION OF THE SPORTS SUBVENTION SCHEME

Summary

1. In pursuit of its objectives on sports development, 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. Since April 2004, the Leisure and Cultural Services Department (LCSD) has administered a Sports Subvention Scheme. In 2009-10, the recurrent subvention granted to 58 NSAs under the Scheme was \$179.9 million. The Audit Commission (Audit) has recently visited six NSAs and conducted a review on the LCSD's administration of the Sports Subvention Scheme.

Allocation of subvention

2. *Different approaches in determining subvention.* Audit reviewed the LCSD's subvention allocation system and found that there were two different approaches in determining the subvention. For some sports programmes, the subvention was determined by netting off the estimated income from the estimated expenditure, subject to a ceiling calculated by applying the maximum subvention percentage to the estimated expenditure. For others, the subvention was directly determined by applying the maximum subvention percentage to the estimated expenditure. The latter approach could lead to the granting of a larger subvention than the former. However, it was unclear from the LCSD records why different approaches were used. *Audit has recommended that the Director of Leisure and Cultural Services should review the different approaches in determining the subvention to see if they are appropriate and conform to the laid down principles.*

3. *Assessment of expenditure and income estimates.* According to the LCSD operational guidelines, the LCSD staff have to vet NSAs' budgets for sports programmes to ensure that the expenditure and income estimates are reasonable having regard to the preceding year's information. Audit found that the LCSD was unable to do so for two programmes of an NSA because the preceding year's information was not available. In the event, there was significant variance between the estimated and the actual expenditure and income. *Audit has recommended that the Director of Leisure and Cultural Services*

should monitor any significant variance between NSAs' budgets and actual outcome, and seek explanations from the NSAs concerned.

4. ***Vetting of budgets submitted by NSAs.*** In a sample check of the LCSD's vetting process, Audit found that there were calculation errors in making adjustments to some budgets and some vetted budgets were not properly filed. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) remind LCSD staff to be careful in making adjustments to NSAs' budgets for subvention allocation purpose; and (b) ensure that the vetted budgets are properly filed.*

Monitoring of NSAs' performance

5. ***Monitoring mechanism.*** The LCSD monitors NSAs' performance by reviewing reports and financial statements of subvented programmes submitted by NSAs at regular intervals. The LCSD also conducts on-site inspections of these programmes for monitoring the progress and assessing the results achieved.

6. ***Late submission.*** In a sample check of six NSAs, Audit found that there was delay in their submission of reports and financial statements to the LCSD. For example, four of them were late in submitting all 8 quarterly reports for 2007-08 and 2008-09. As at 31 July 2009, 36 overdue quarterly reports were received after an average delay of 2.8 months. The LCSD was not timely in issuing reminders for the outstanding reports. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) remind NSAs to submit timely reports and financial statements; (b) ensure that LCSD staff take timely follow-up action on late submissions; and (c) consider invoking the subvention agreement provision of withholding subvention for repeated cases of late submission of reports and financial statements.*

7. ***Inadequacies and non-compliance in reporting.*** Audit found that there were inadequacies and non-compliance in reporting some required information by the six NSAs. For example, all six NSAs did not report cancellation of sports programmes in their 2007-08 quarterly reports. Five of them did not report participants' feedback in their evaluation reports. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) remind NSAs to properly prepare reports and financial statements; (b) revise the report forms to facilitate NSAs to report the required information; and (c) provide further guidelines for LCSD staff to ensure that their checking of reports and financial statements is complete and comprehensive.*

8. ***Long time taken to process submitted accounts.*** Audit found that the LCSD had taken, on average, 16.6 months to process the 2006-07 accounts submitted by the six NSAs.

Audit has recommended that the Director of Leisure and Cultural Services should take measures to expedite the processing of annual accounts.

9. ***Unspent balance of lump sum subvention.*** For four categories of sports programmes, 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. The LCSD's practice was that it would allow an NSA to retain the unspent subvention as reserve fund if any one of the programmes of a lump sum subvention was carried out. This practice may not be conducive to encouraging an NSA to implement all programmes of a lump sum subvention. *Audit has recommended that the Director of Leisure and Cultural Services should review the practice of allowing an NSA to retain as reserve fund the unspent lump sum subvention arising from cancellation of programmes.*

10. ***On-site inspections of subvented programmes.*** The LCSD has laid down guidelines for inspecting subvented programmes held in non-LCSD venues. However, there are no guidelines for inspecting programmes held in LCSD venues despite that most of the programmes were held therein. Audit found that for some programmes held in LCSD venues, the inspection percentages varied from 88% to 3%. For some programmes held in non-LCSD venues, the laid down inspection guidelines were not complied with. *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.*

Internal controls of NSAs

11. ***Quality assurance checks.*** Since 2005, the Quality Assurance Section (QAS) of the LCSD has conducted quality assurance checks on NSAs to review their internal control procedures and accounting records. The QAS had identified common internal control weaknesses and reporting errors in NSAs' annual accounts, and forwarded its findings and recommendations to the Sports Funding Office (SFO) of the LCSD and the NSAs concerned. However, the SFO took a long time to follow up the QAS recommendation relating to one NSA. The senior management of the LCSD was not involved in monitoring the implementation of the QAS recommendations. Furthermore, the LCSD had not organised training to help NSAs improve their internal controls for more than two years. *Audit has recommended that the Director of Leisure and Cultural Services should: (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; and (c) organise more training for NSAs to help them improve their internal controls.*

12. **Internal control weaknesses.** Audit reviewed the internal controls of the six NSAs to see if the QAS recommendations had been implemented. Audit found that there were similar internal control weaknesses to those identified by the QAS. Furthermore, the NSAs did not circulate their procurement guidelines and code of conduct regularly to office-bearers and staff. *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; and (b) remind NSAs to comply with the requirement of circulating their procurement guidelines and code of conduct to office-bearers and staff at regular intervals.*

13. **Reporting errors in annual accounts.** Audit sample checked the 2007-08 accounts of the six NSAs and found that there were similar reporting errors to those identified by the QAS. For example, expenditure claims ineligible for subvention or exceeding the spending limits were included in some accounts. There were omissions in reporting income by some NSAs. Furthermore, the NSAs had not kept the subvention funds and their own funds in separate bank accounts, thus giving rise to difficulties in reporting the bank interest income in the 2007-08 annual accounts. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) remind NSAs to follow the laid down requirements in preparing their annual accounts; (b) follow up the reporting errors identified by Audit in the six NSAs' 2007-08 accounts and check whether there are similar errors in other NSAs' annual accounts; and (c) require NSAs to keep separate bank accounts for subvention funds.*

14. **Audit arrangements for annual accounts.** Before 2008-09, 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. The subvention agreements for 2008-09 and onwards have included such audit requirements. However, the LCSD had not revised the sample auditor report to take into account the new audit requirements. Audit also noted that the six NSAs had not issued engagement letters to set out the scope of the audit of their annual accounts. As such, there was no assurance that the LCSD's stipulated audit requirements had been clearly communicated to the NSAs' auditors. *Audit has recommended that the Director of Leisure and Cultural Services should: (a) revise the sample auditor report to take into account the stipulated audit requirements; and (b) require NSAs to issue engagement letters to their auditors, clearly setting out the stipulated audit requirements.*

Response from the Administration

15. The Director of Leisure and Cultural Services accepts the audit recommendations.

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