

CHAPTER 6

Home Affairs Bureau

Hong Kong Chinese Orchestra Limited

**Audit Commission
Hong Kong
29 March 2010**

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.

Report No. 54 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>.

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HONG KONG CHINESE ORCHESTRA LIMITED

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PART 1: INTRODUCTION

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

Background

1.2 The objective of the Government's cultural policy is to create an environment conducive to artistic expression and creation, and the wider participation in cultural activities. To support this policy objective, the Government provides funding to local performing arts groups so that they can develop quality performing arts programmes at affordable prices for the public.

Hong Kong Chinese Orchestra Limited

1.3 The Hong Kong Chinese Orchestra was founded in 1977 by the then Urban Council. Upon the dissolution of the Provisional Urban Council in January 2000, the Leisure and Cultural Services Department (LCSD) became responsible for funding and managing the orchestra.

1.4 In February 2001, with a view to allowing the orchestra to have greater autonomy in its artistic vision, more administrative flexibility, and more community involvement and support, the Government formed the Hong Kong Chinese Orchestra Limited (HKCO), a company limited by guarantee. In April 2001, the company officially took over the governance and management of the orchestra from the LCSD, but continued to receive funding support from the LCSD.

1.5 With effect from 1 April 2007, the Home Affairs Bureau (HAB) took over the funding responsibility for the HKCO and other major performing arts groups (pursuant to the recommendations in the 2006 report of the Committee on Performing Arts — Note 1) to put them on the same platform for consideration of funding support.

1.6 ***Funding and Services Agreement.*** To ensure proper administration of the HKCO and that public money is used properly and cost-effectively, and without micro-managing it on a day-to-day basis, the HAB enters into a Funding and Services Agreement (FSA) with the HKCO on an annual basis. The FSA has set out a number of requirements for the HKCO to follow, including:

- (a) implementing the committed level of activities using all experience, skill, care and diligence as may be expected from a person who is an expert in providing similar activities;
- (b) adopting proper internal controls and ensuring value for money in using the subvention;
- (c) submitting to the Government, after the end of a financial year:
 - (i) a self-evaluation and assessment report and a year-end report (collectively termed “**Self-evaluation Report**”) (by 30 June);
 - (ii) audited financial statements of the company and an audited financial report of subvented activities (by 30 September); and
 - (iii) an annual report (by 31 October); and
- (d) charging full costs for services provided on a self-financing basis to other organisations, and ensuring that there is no cross-subsidisation of self-financing activities by subvented activities.

The HAB’s representatives attend the HKCO Council meetings as observers and receive full sets of Council papers and minutes.

Note 1: *The Committee on Performing Arts was set up in 2004 to advise the Secretary for Home Affairs on performing arts services. The Committee includes non-official members from diverse backgrounds and ex-officio representatives from the Hong Kong Arts Development Council and the Hong Kong Academy for Performing Arts. The Committee issued a report in June 2006 proposing changes in the areas of funding mechanism, programme presentation and venue provision.*

1.7 ***HKCO's structure.*** The Council of the HKCO is its governing body. The Council is supported by four committees. There are two principal executives, i.e. the Artistic Director (AD) and the Executive Director (ED). The AD is the head of the artistic department and also the principal conductor of the orchestra. The ED is the head of the administration department. An organisation chart of the HKCO is at Appendix A.

1.8 ***HKCO's activities.*** The HKCO's major activities are providing music programmes and outreach community activities. For each orchestral season (from September to August of the next year), the HKCO presents a variety of concerts. Outreach community activities are mainly performances and workshops held in schools and other venues for the promotion and education of Chinese music.

1.9 ***HKCO's income and expenditure.*** The HKCO is mainly funded by subvention from the Government. In 2008-09, the total income (Note 2) of the HKCO was \$64.5 million, of which \$53.1 million was government subvention (see Figure 1(A)). In the same year, the total expenditure (Note 2) was \$62.6 million, of which staff cost accounted for \$41.5 million (66% — see Figure 1(B)). For 2008-09, the HKCO had a **cost recovery rate of 18% (Note 3)**. In other words, 82% of the HKCO expenditure was met by the Government.

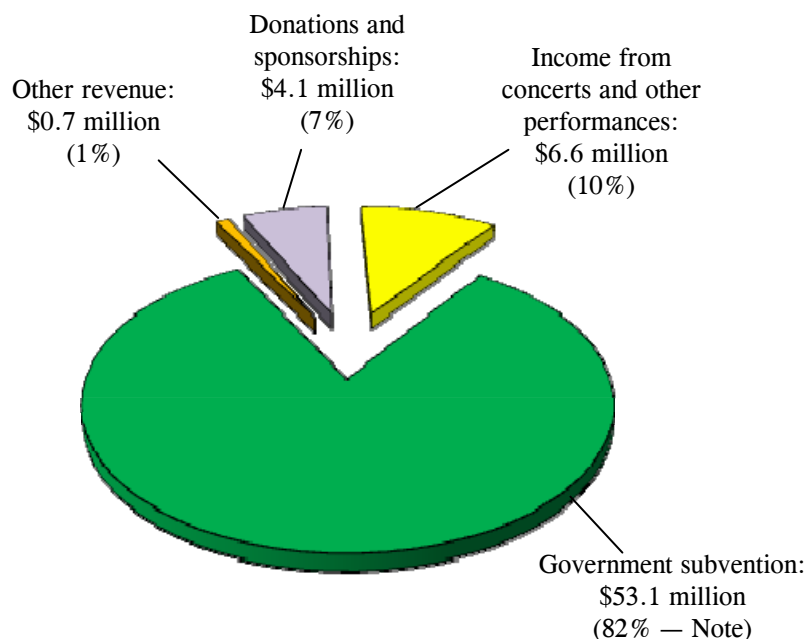
Note 2: *The total income and expenditure did not include those relating to activities outside the ambit of government subvention (e.g. HKCO's self-financing training courses).*

Note 3: *Cost recovery rate = \$11.4 million (income other than subvention) ÷ \$62.6 million (total expenditure) × 100%.*

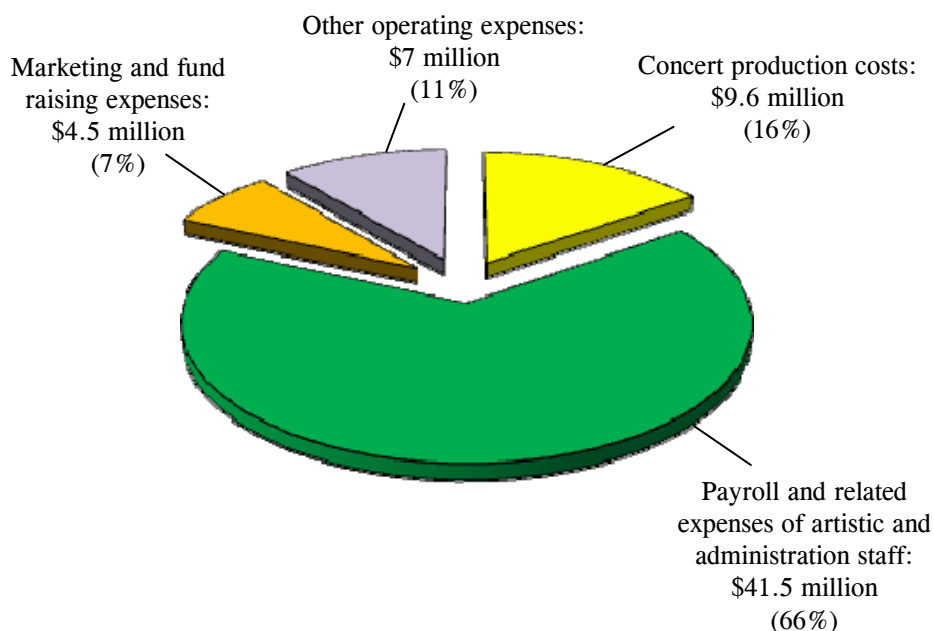
Figure 1

**Income and expenditure of HKCO
(2008-09)**

(A) Income: \$64.5 million



(B) Expenditure: \$62.6 million



Source: HKCO records

Note: The subvention comprised \$50.1 million (HKCO core business), \$1.5 million (Venue Partnership Scheme — see para. 3.6) and \$1.5 million (outbound cultural activities).

Audit review

1.10 The Audit Commission (Audit) has recently conducted a review of the HKCO. In carrying out this review, Audit has taken into account the following:

- (a) the Committee on Performing Arts recommended in its 2006 report (see para. 1.5) that a set of clear and measurable funding assessment criteria should be developed for the major performing arts groups. **In making this recommendation, the Committee considered that there should be appropriate weighting on governance and management which would have a direct bearing on a performing arts group's ability to realise its artistic vision and achievement.** Pursuant to this recommendation, the Government has commissioned a consultancy study to examine and refine the existing funding, governance and administration framework for the major performing arts groups;
- (b) in May 2009, the HAB informed the Home Affairs Panel of the Legislative Council that the Government counted on the governing boards of the major performing arts groups to lead the groups to artistic excellence on the artistic front, and to ensure proper management of the groups on the management front. Within this framework of autonomy, the Government expected the boards of the performing arts groups to adhere to principles of transparency and accountability in the management of the groups which is a legitimate expectation on organisations supported to a considerable extent by public funds; and
- (c) since its corporatisation in 2001, the HKCO has made considerable efforts to meet the objectives set out in the FSA of promoting and developing Chinese music in Hong Kong.

1.11 Against the above background, the audit review focused on the following governance and management issues:

- (a) corporate governance (PART 2);
- (b) core activities (PART 3);
- (c) human resources management (PART 4); and
- (d) other administrative issues (PART 5).

The review did not touch on the artistic merit of the HKCO work.

General response from the HKCO

- 1.12 The **Council Chairman, HKCO** has said that:
- (a) the HKCO welcomes the audit review, which provided a health check for the organisation. It is grateful for all the professional and independent insights and recommendations, which will no doubt further enhance the HKCO's value for money;
 - (b) the HKCO agrees in general with the audit recommendations and will work closely with the LCSD and the HAB to ensure proper follow-up for improvement as appropriate;
 - (c) the ultimate value of a performing arts group to the community is its overall impact and artistic achievement, which is dependent on a well-governed and professionally managed company. The sound governance and management of the company is therefore the enabler, not the driver; the cart, not the horses, to artistic development and achievement, and is valuable only to the extent it facilitates the latter. As and when administration and bureaucracy threaten to consume time and resources to the point of stifling the HKCO's core work in arts and arts promotion, the HKCO should reconsider its priorities in the correct context. It is a constant and difficult balancing act that must be borne in mind in the HKCO's daily operation and also in any review. It may not be very meaningful to just focus on the mechanistic administration and bureaucracy in any review of the HKCO, neglecting the more valuable yet intangible return the HKCO brings;
 - (d) despite that Chinese orchestral music has been developed for about 90 years, it is still much less established in the global art world compared to its western counterparts (the development of symphony orchestras dates back over 300 years). Added to this is Hong Kong's unique colonial past and the very heavy western influences in the way Hong Kong people live. Taken together, it means that classical Chinese music has yet to be recognised as a mainstream art form in the territory. That is why the HKCO (since its corporatisation in 2001) has been giving priority to its very challenging mission to promote Chinese music and culture. The HKCO has been trying to do that by widening its audienceship primarily through two channels, namely community outreach and enlisting the private sector's support and endorsement;
 - (e) the HKCO's community events not only provide enjoyable moments, but also sow seeds and cultivate future audiences. With the support of various stakeholders and the community, the HKCO was able to win for Hong Kong three Guinness World Records in 2001, 2003 and 2005. The HKCO is also the first performing arts organisation to become a "Caring Organisation", underlining the HKCO's determined strides in corporate social responsibility;

- (f) likewise, private sector sponsorship not only brings money but also new audiences, who may otherwise likely not be exposed to Chinese music at all. The broadening of the HKCO's audience profile in this manner will help ensure that its audienceship is expanded up and down the community to encompass truly people of all walks of life. Indeed, working with the private sector has been encouraged for almost any social/community good causes. Public private partnership (PPP), as a concept, seems to be the only sustainable way out for all arts groups in Hong Kong and elsewhere in the world;
- (g) the pivotal objective to widen the HKCO's audience base requires community outreach and promotion, as well as the involvement of private sector through sponsorship, to be at the core of the HKCO's marketing strategy. The HKCO is pleased that the former was well recognised by Audit (see the "Chinese Music Alive" Scheme in para. 3.19), but the HKCO is worried that its private sector involvement and sponsorship seem to have caused concern. The HKCO agrees that the administration and management of the latter could be improved. Nevertheless, it must be acknowledged that the HKCO may be unique in requiring a more vigorous promotional strategy than the conventional arts groups, given the HKCO's position with regard to Chinese music development;
- (h) besides continuously creating/enhancing cultural and social value for money in Hong Kong through Chinese music, hence helping give effect to the Government's cultural policy, more importantly and at the macro level, the HKCO has been contributing, on behalf of Hong Kong, as China's world city, to the wider development of Chinese orchestral music in the international arena at a time when the world's eyes are all intensely on the East. The HKCO is named the "Leading Chinese Orchestra in the World" and the "Cultural Ambassador of Hong Kong". The HKCO's rapport and interaction with the Mainland Chinese orchestral music organisations not only enable it to be benefited but also to leverage Hong Kong's unique position to connect with and influence over international music development in an attempt to put Chinese orchestral music making and appreciation increasingly on a par with that of western music, as it should be; and
- (i) the various artistic and management awards the HKCO has won, speak to the collective passion and achievement of the HKCO's team. In fact, the HKCO has been performing fairly impressively, as highlighted by the comparison (at Appendix B) between where the HKCO was in 2008-09 versus where it started in 2001-02.

Acknowledgement

1.13 Audit would like to acknowledge with gratitude the full cooperation of the staff of the HKCO, the LCSO and the HAB during the course of the audit review.

PART 2: CORPORATE GOVERNANCE

2.1 Good corporate governance is essential to all well-run public and private organisations. This PART examines the HKCO's governance arrangements.

Governance structure

Members and Council members

2.2 The HKCO's Articles of Association have the following provisions regarding its members:

- (a) ***Members.*** The subscribers of the HKCO's Memorandum of Association are its first members. Other persons may apply for membership subject to the approval of the Council. Members have the right to attend annual general meetings to consider the HKCO's accounts, the Council's reports and the auditors' reports; appoint auditors; and elect Council members. Currently, there are 18 members; and
- (b) ***Council members.*** The Council shall consist of not less than 6 or more than 20 members. At least two-thirds of Council members shall be elected by members and not more than one-third of Council members shall be appointed by the Government. The term of office of Council members is two years. Retired Council members are eligible for re-election or re-appointment but they can at most serve for three consecutive terms. Currently, there are 7 elected and 2 appointed Council members (Note 4).

Council and committees

2.3 The Council as the governing body is responsible for overall management of the affairs and business of the orchestra. The Council has established the following four committees to assist it in performing its functions and duties:

- (a) ***Finance and Audit Committee.*** It monitors financial performance, budgetary control, accounting policies and internal control;

Note 4: *The Government appointed three Council members to serve for a two-year term commencing October 2008. In October 2009, one of the appointed Council members resigned.*

- (b) ***Human Resources Committee.*** It advises on human resources development policies, manpower planning, staff development, appraisal and remuneration;
- (c) ***Marketing Committee.*** It formulates marketing policies and strategies, and monitors marketing, sales and fund-raising activities; and
- (d) ***Nomination Committee.*** It advises on the criteria for selecting Council members, recommends the best skill-mix scenario for the Council, and reviews potential candidates nominated by members to stand for election as Council members.

Policies and guidelines

2.4 The HKCO compiled a set of corporate governance principles and guidelines (Corporate Governance Guidelines) to provide the Council and its members with defined direction of work and modus operandi. To guide its staff in managing the day-to-day operation, the HKCO also laid down its administrative policies and procedures in the following manuals:

- (a) Accounting Policies and Procedures Manual (Accounting Manual);
- (b) Human Resources Policies and Procedures Manual (Human Resources Manual); and
- (c) Marketing and Development Policies and Procedures Manual (Marketing Manual).

Audit observations and recommendations

Declaration of interests

2.5 In accordance with the Corporate Governance Guidelines, the HKCO has implemented a two-tier system for declaring interests. Under the system, Council members are required to:

- (a) make a written declaration of interests when joining the Council (in October) and annually thereafter; and
- (b) declare any conflict of interests as and when it arises. To ensure that Council members properly declare any conflict of interests in relation to the agenda items of a Council meeting, they are required to complete and return a standard declaration form (including a nil return) to the administration department for each meeting. In case of any declared conflict of interests, the Council Chairman will be informed for taking necessary action.

2.6 In an examination of the annual declarations of interests and the declarations of conflict of interests for meetings, Audit found that there was room for improvement in the following aspects:

- (a) the annual declarations of interests for the year from October 2007 (see para. 2.5(a)) to September 2008 were mislaid and could not be produced for audit inspection. For the subsequent year, one Council member did not submit the annual declaration;
- (b) for the seven Council meetings held from October 2008 to September 2009, only 38 (49%) of the required 77 declarations from the then 11 members were received by the administration department. In 22 of the other 39 (77 – 38) cases without declarations, the Council members concerned attended the meetings. The administration department informed Audit that they had verbally followed up with Council members not submitting the required declarations but the follow-up actions and results were not documented;
- (c) there was no record showing that Council members had made additional declarations at the Council meetings before discussing papers tabled at the meetings (see para. 2.7(b)) and issues raised under “Any other business”; and
- (d) the requirement to submit declarations of conflict of interests only applied to Council meetings but not committee meetings.

Proceedings of meetings

2.7 According to the Corporate Governance Guidelines, the notices, agenda and papers of Council and committee meetings must be served sufficiently in advance. The HKCO annual reports have further stated that the notice and agenda of a meeting should be distributed two weeks before the meeting, and the papers one week before the meeting. In an examination of the timeliness of distributing these documents for the Council and committee meetings held during the period October 2007 to September 2009, Audit found that:

- (a) for 26 (63%) of a total of 41 meetings, notices and agenda were distributed later than the stipulated two weeks before the meetings; and
- (b) for 92 (54%) of a total of 170 meeting papers, they were distributed later than the stipulated one week before the meetings. Of the 92 meeting papers, 24 were tabled at the meetings.

Audit requirements

2.8 According to the FSA (see para. 1.6(c)(ii)), the HKCO is required to provide to the Government, within six months after the end of a financial year:

- (a) audited annual financial statements of the company. The accompanying auditors' report shall contain an opinion as to whether the statements give a true and fair view of the company's state of affairs as at the end of the financial year and financial result and cash flows for the financial year; and
- (b) an audited annual financial report showing the income and expenditure of the subvented activities and the movement in the reserve and the assets acquired which are funded by the subvention. The accompanying auditors' report shall contain an opinion as to whether the company has complied with, in all material respects, the requirements as may be set by the Government and all the terms and conditions of the FSA and other relevant documents as may be specified by the Government.

2.9 The above audit requirements were promulgated in Financial Circular No. 9/2004 of September 2004 and have been included in the FSA since 2005-06. **However, Audit noted that for the four years from 2005-06 to 2008-09, the HKCO auditors' reports did not contain an audit opinion on the subvented activities and were hence not in compliance with the audit requirement stated in paragraph 2.8(b). This was because the HKCO had not incorporated the audit requirement in its audit engagement letters.**

2.10 Audit reviewed the records of the LCSD and the HAB for the periods when the HKCO was under their respective purview to ascertain what action they had taken in respect of the audit requirements. Audit found that:

- (a) ***LCSD's action.*** In November 2005, the Assistant Director (Finance) of the LCSD informed the Deputy Director (Culture) that the 2004-05 audited financial statements of the HKCO (and other subvented performing arts groups) did not contain an audit opinion on the financial report of the subvented activities (i.e. the audit requirement in para. 2.8(b)). In response, the Assistant Director (Performing Arts) said that the audit requirements were included into the FSAs for 2005-06 and full compliance with the audit requirements would be closely monitored upon receiving the audited financial statements for 2005-06. In September 2006, in preparation for the impending transfer of the funding responsibilities for performing arts groups to the HAB, the LCSD staff concerned were transferred to the HAB; and

- (b) ***HAB's action.*** In April 2007, the HAB sought the Financial Services and the Treasury Bureau (FSTB)'s advice on whether the 2005-06 audited financial statements of the subvented performing arts groups had fulfilled the requirements laid down in Financial Circular No. 9/2004. In response, the FSTB advised that the detailed requirements and presentation of the annual financial report to be submitted might be determined by the Controlling Officer taking into account any specific requirements and, where necessary, in consultation with the Director of Accounting Services. The HAB did not subsequently consult the Director of Accounting Services or raise questions on the audited financial statements submitted by the HKCO.

Audit recommendations

2.11 **Audit has recommended that the HKCO should:**

Declaration of interests

- (a) **ensure that the laid-down requirements on annual declarations of interests and declarations of conflict of interests for meetings are strictly complied with;**
- (b) **require the administration department to keep proper record of both verbal and written declarations;**
- (c) **review the arrangements for declaring conflict of interests, including extending the requirement to all committee meetings;**

Proceedings of meetings

- (d) **remind the administration department to distribute meeting documents within the stipulated time; and**

Audit requirements

- (e) **ensure that the audit requirements laid down in the FSA are complied with.**

- 2.12 **Audit has recommended that the Secretary for Home Affairs should:**
- (a) **consider consulting the Director of Accounting Services on the issue of compliance with the audit requirements in the FSA and follow up the compliance by the HKCO and other performing arts groups (see para. 1.5) as appropriate; and**
 - (b) **in the light of findings in this report, remind other performing arts groups to check whether there are similar problems for taking necessary action.**

Response from the HKCO

2.13 The HKCO welcomes the audit recommendations. The **Council Chairman, HKCO** has said that the HKCO:

- (a) has taken note of the relevant audit requirements in the FSA but it has been given to understand in the past that an audit opinion on subvented activities could be included or not included. This practice is adopted not just by the HKCO, but apparently by all major subvented performing arts groups. A review by the HAB is under way to better define the audit requirements for all the nine major performing arts groups. In February 2010, the issue was discussed at a meeting held between these arts groups and the HAB; and
- (b) takes compliance very seriously. It welcomes the professional and valuable input of Audit and will definitely take Audit's recommendations into consideration.

Response from the Administration

2.14 The **Secretary for Home Affairs** agrees with the audit recommendations.

PART 3: CORE ACTIVITIES

3.1 This PART examines the HKCO's performance results reported to the Government on its core activities (i.e. the conduct of regular concerts).

Conduct of regular concerts

3.2 Each year, the HKCO conducts some 50 performances on regular concerts (in addition, it conducts some 75 outreach community activities). Photographs 1 and 2 are examples of such regular concerts held in 2008-09. As mentioned in paragraph 1.9, the HKCO activities are mainly subsidised by government subvention (in 2008-09, accounting for 82% of the HKCO expenditure).

Photograph 1

A regular concert held at Hong Kong Cultural Centre (2008-09)



Source: Photograph provided by HKCO

Photograph 2

Another regular concert held at Hong Kong City Hall (2008-09)



Source: Photograph provided by HKCO

3.3 Each year, the HKCO enters into an FSA with the Government on the activities to be implemented and the subvention terms (see para. 1.6). For performance management, the FSA included the HKCO's planned achievements for the activities to be implemented. For example, in the 2008-09 FSA, the HKCO set out the following targets for regular concerts under "Core Programmes (Core business)" for 2008-09:

- 26 concerts (46 performances)
- Paid audience of 35,265 persons
- 1,860 complimentary tickets
- Attendance rate (Note) of 87%
- Ticket proceeds of \$5.05 million

Note: According to the FSA, the HAB has required the HKCO to use the expected paid audience (i.e. excluding complimentary tickets) for calculating the attendance rates.

Audit examination

3.4 In an examination of the HKCO's conduct of regular concerts, Audit identified that there was scope for improvement in the following:

- (a) performance results reported to the Government (paras. 3.5 to 3.12);
- (b) controlling the issue of complimentary tickets (paras. 3.13 to 3.26); and
- (c) formulating the seating and ticketing strategy (paras. 3.27 to 3.33).

Performance results reported to the Government

3.5 As mentioned in paragraph 1.6(c), to account for its performance for each financial year, the HKCO is required to submit to the Government by 30 June of the following financial year a Self-evaluation Report.

3.6 In mid-2009, the HKCO submitted to the HAB its Self-evaluation Report for 2008-09. Table 1 shows the performance results, as stated in the Self-evaluation Report, of the regular concerts held under "Core Programmes (Core business)" and "Core Programmes under the Venue Partnership Scheme (VPS — Note 5)". Reported performance results for individual regular concerts (Concerts 1 to 31) are detailed at Appendix C.

Note 5: *The VPS is an arts development initiative implemented by the LCSD. It involves the organisation of different forms of performances at LCSD venues in partnership with various performing arts organisations (such as the HKCO).*

Table 1
Reported performance results for regular concerts
(2008-09)

| Indicator | Target (per FSA) | Achievement (per Self-evaluation Report) |
|---|------------------------------|--|
| <i>Core programmes (Core business):</i> | | |
| (a) Number of concerts (performances) | 26 (46) (Note) | 28 (46) (Note) |
| (b) Maximum audience capacity (seats) | 40,683 | 43,886 |
| (c) Paid audience (persons) | 35,265 | 35,676 |
| (d) Number of complimentary tickets | 1,860 | 1,701 |
| (e) Attendance rate ((c) ÷ (b) × 100%) | 87% | 81% |
| (f) Ticket proceeds | \$5.05 million | \$5.81 million |
| <i>Core programmes (VPS):</i> | | |
| (g) Number of concerts (performances) | } No quantified target | 3 (4) |
| (h) Maximum audience capacity (seats) | | 5,984 |
| (i) Paid audience (persons) | | 5,015 |
| (j) Number of complimentary tickets | | 240 |
| (k) Attendance rate ((i) ÷ (h) × 100%) | | 84% |
| (l) Ticket proceeds | | \$0.38 million |

Source: HAB and HKCO records

Note: Five of the reported concerts and performances, as against eight of the targeted concerts and performances, were open rehearsals held at the HKCO Rehearsal Hall, each of which had less than 50 persons in the audience.

Audit observations and recommendations

Proper reporting of performance results

3.7 The performance results in the Self-evaluation Report (see Table 1) show that the HKCO had generally achieved its targets in the FSA. **Audit however found that the Self-evaluation Report did not present a proper picture of the actual performance results.** This is because the number of complimentary tickets, paid audience, ticket proceeds and attendance rates were not appropriately reported, as explained below:

- (a) ***Complimentary ticket figures.*** Audit found that 1,941 complimentary tickets reported (1,701 plus 240 — see items (d) and (j) in Table 1) represented only the numbers of **free complimentary tickets** issued by the Urban Ticketing System (URBTIX of the LCSD — Note 6) to the HKCO for distribution. The figures did not include complimentary tickets purchased by the HKCO itself (**HKCO-paid complimentary tickets**) for promotional purposes. Audit found that the HKCO in fact issued 5,262 complimentary tickets in 2008-09 (see Table 5 in para. 3.14), comprising 1,941 free complimentary tickets and 3,321 HKCO-paid complimentary tickets. (Audit issues on the HKCO complimentary tickets system are reported in paras. 3.13 to 3.26). For illustration purposes, two concerts with large numbers of HKCO-paid complimentary tickets are shown below.

Note 6: *Under a venue hire agreement entered between the LCSD and the HKCO, for each concert held at LCSD venues, the former would not issue complimentary tickets that exceeded 5% of the seats in the approved seating plan for the concert unless with the written permission of the venue manager. As a normal practice, the LCSD would only issue some 50 to 60 free complimentary tickets (depending on venue capacity) to the HKCO for distribution.*

Case 1

Concert 14 (two performances)

| Venue: Hong Kong Cultural Centre (HKCC) Concert Hall | | |
|--|------------------------------------|---|
| | Paid audience (persons) | Number of complimentary tickets issued |
| Per Self-evaluation Report | 1,984 | 120 |
| Adjusted figures | 1,143 (Note 1) | 945 (Note 2) |

Source: HKCO records

Note 1: The adjusted figure of 1,143 was derived by deducting 825 HKCO-paid complimentary ticket holders and 16 seats reserved by the LCSD (see para. 3.7(b) below) from the reported paid audience figure of 1,984.

Note 2: The adjusted figure of 945 was derived by adding 825 HKCO-paid complimentary tickets to the reported 120 free complimentary tickets. The 945 complimentary tickets included 543 issued to sponsors, 175 to HKCO guests and 116 to local media firms (for distribution to the public as a means of promotion).

Case 2

Concert 29 (one performance)

| | | |
|----------------------------|------------------------------------|---|
| Venue: HKCC Concert Hall | | |
| | Paid audience (persons) | Number of complimentary tickets issued |
| Per Self-evaluation Report | 1,065 | 60 |
| Adjusted figures | 660 (Note 1) | 457 (Note 2) |

Source: HKCO records

Note 1: The adjusted figure of 660 was derived by deducting 397 HKCO-paid complimentary ticket holders and 8 seats reserved by the LCSD (see para. 3.7 (b) below) from the reported paid audience figure of 1,065.

Note 2: The adjusted figure of 457 was derived by adding 397 HKCO-paid complimentary tickets to the reported 60 free complimentary tickets. The 457 complimentary tickets included 370 issued to participating artists, 35 to three non-profit making organisations and 30 to HKCO guests.

- (b) **Paid audience figures.** Audit found that the reported paid audience figure of 40,691 (35,676 plus 5,015 — see items (c) and (i) in Table 1) included 3,321 (8%) HKCO-paid complimentary ticket holders which should not have been regarded as paid audience. The **revised paid audience figures** (including minor adjustments for a number of seats reserved by the LCSD for venue management purposes) should be 36,981 (32,656 and 4,325). In other words, there was an over-reporting of paid audience by 3,710;

- (c) **Ticket proceeds figures.** Similar to (b) above, the reported \$6.19 million ticket proceeds in 2008-09 (\$5.81 million plus \$0.38 million — see items (f) and (l) in Table 1) included \$0.83 million being proceeds due to HKCO-paid complimentary tickets, the purchase of which involved HKCO expenditure of an equivalent amount. Given that the HKCO had not derived any economic benefit from the sale of complimentary tickets to itself, ticket proceeds of \$0.83 million should have been netted off. The reported ticket proceeds should therefore be revised to \$5.36 million (see Table 2). Table 2 further shows that there was an increase in HKCO expenditure for purchasing complimentary tickets in 2009-10;

Table 2

HKCO-paid complimentary tickets and net ticket proceeds

| Financial year | Ticket proceeds | HKCO-paid complimentary tickets | | Net ticket proceeds |
|------------------------------|-----------------|---------------------------------|-------------------|---------------------|
| | (i) | (ii) | | (iii) = (i) – (ii) |
| | (\$ million) | (\$ million) | Percentage of (i) | (\$ million) |
| 2008-09 | 6.19 | 0.83 (Note) | 13% | 5.36 |
| 2009-10 (up to Dec. 2009) | 4.28 | 0.96 (Note) | 22% | 3.32 |

Source: HKCO records

Note: These excluded \$0.44 million (2008-09) and \$0.34 million (2009-10) spent on ticket purchases under a special promotion scheme at a sponsor's request for free distribution to the youth and the underprivileged.

- (d) **Attendance rates.** In the Self-evaluation Report, the attendance rates were determined by dividing the paid audience figures (see items (c) and (i) in Table 1) by the maximum audience capacity of the venues where the concerts were held (see items (b) and (h) in Table 1). Audit has the following observations:
- (i) **Paid audience.** As explained by the HKCO in February 2010, it used the paid audience figures (i.e. excluding free complimentary ticket holders, but including HKCO-paid complimentary ticket holders) as the basis for calculating the attendance rates due to the HAB's requirement specified in the FSA (see para. 3.3). This basis might not be valid,

given that not all ticket holders would have attended the concerts. In this regard, attendance records kept by the LCSD venue management based on ticket stubs collected at the entrance of the venues could better reflect the actual turnout. As advised by the LCSD, these attendance records could be provided to hirers upon request. Based on the LCSD attendance records, Audit found that there were HKCO concerts with relatively high absence rates. For example, for four HKCO concerts held at the HKCC Concert Hall, more than 20% of the total audience (paid audience and complimentary ticket audience) did not attend the concerts (see Table 3). In other words, attendance rates based on paid audience could have been overstated when absence rates were high;

Table 3
Concerts with over 20% of audience absent
(2008-09)

| Concert | Total audience (persons) (a) | Actual turnout (b) | Number of absentees (c) = (a) – (b) | Absence rate (d) = $\frac{(c)}{(a)} \times 100\%$ |
|---------------------------------|---------------------------------|-----------------------|--|--|
| Concert 2 (2nd performance) | 1,557 | 1,214 | 343 | 22% |
| Concert 14 (1st performance) | 1,145 | 884 | 261 | 23% |
| Concert 25 (1st performance) | 979 | 694 | 285 | 29% |
| Concert 29 | 1,117 | 864 | 253 | 23% |

Source: HKCO and LCSD records

- (ii) **Maximum audience capacity.** The HKCO generally held its regular concerts at two LCSD venues, namely the HKCC Concert Hall and the Hong Kong City Hall (HKCH) Concert Hall, with a maximum audience capacity of 2,005 and 1,434 seats respectively. Instead of using the “maximum audience capacity” of the venues for calculating the attendance rates, the HKCO used a **pre-defined audience capacity** for its calculation (which was agreed by its Council in 2003). **The pre-defined audience capacity was 1,496 (some 75% of 2,005) seats for the HKCC, and 1,206 (some 84% of 1,434) seats for the HKCH.** That is, the HKCO assumed that some 25% and 16% of the seats in the two venues would always not be used. However, Audit noted that the assumption might not always be valid. This was because the numbers of seats allocated for use varied with HKCO concerts. For example, in 2008-09, for four concerts held at the HKCC, the numbers of seats allocated for use (Note 7) were greater than the pre-defined audience capacity by 17% to 28%. As a result, there were concerts for which the reported attendance rates exceeded 100% because of the use of the pre-defined audience capacity (see Concerts 15, 28 and 30 at Appendix C).

3.8 Taking into account the audit observations in paragraph 3.7, Audit worked out in Table 4 the revised 2008-09 performance results for the HKCO regular concerts that should have been reported to the Government (with detailed breakdown at Appendix D).

Note 7: *The number of seats allocated for use for a concert is set out in an approved seating plan. For each concert, the HKCO forwards to the LCSD for approval a ticket price scale and a seating plan. The seating plan shows all available seats for a particular concert, including those seats for which complimentary tickets will be issued. No changes shall be made to the approved price scale and seating plan without the prior permission of the LCSD venue manager.*

Table 4
Revised performance results for HKCO regular concerts
(2008-09)

| Indicator | Achievement |
|---|--------------------------------|
| <i>Core programmes (Core business):</i> | |
| (a) Number of concerts (performances) | 28 (46) |
| (b) Revised maximum audience capacity (seats — Note 1) | 48,489 |
| (c) Revised paid audience (persons — Note 2) | 32,656 |
| (d) Revised number of complimentary tickets (Note 3) | 4,391 |
| (e) Revised attendance rate (33,085 ÷ (b) × 100% — Note 4) | 68% |
| (f) Revised ticket proceeds | \$5.10 million (Note 5) |
| <i>Core programmes (VPS):</i> | |
| (g) Number of concerts (performances) | 3 (4) |
| (h) Revised maximum audience capacity (seats — Note 1) | 6,193 |
| (i) Revised paid audience (persons — Note 2) | 4,325 |
| (j) Revised number of complimentary tickets (Note 3) | 871 |
| (k) Revised attendance rate (4,624 ÷ (h) × 100% — Note 4) | 75% |
| (l) Revised ticket proceeds | \$0.26 million (Note 5) |

Source: Audit's calculations based on HKCO and LCSD records

Note 1: The revised maximum audience capacity was based on the actual numbers of seats allocated for use for individual concerts (see para. 3.7(d)(ii)).

Note 2: The revised paid audience figures excluded HKCO-paid complimentary ticket audience, but included 3,575 tickets purchased under a special promotion scheme at a sponsor's request for free distribution to the youth and the underprivileged (see para. 3.7(b) and Note to Table 2 in para. 3.7(c)).

Note 3: The revised numbers of complimentary tickets included free complimentary tickets and HKCO-paid complimentary tickets (see para. 3.7(a)).

Note 4: According to the LCSD records, the actual turnouts were 33,085 (Core business) and 4,624 (VPS).

Note 5: Ticket proceeds excluded \$0.71 million (Core business) and \$0.12 million (VPS) for HKCO-paid complimentary tickets (see Note 2 above).

3.9 A comparison of Tables 1 and 4 shows that the actual performance results of the HKCO had not been appropriately reported to the Government. In particular, the figures for complimentary tickets, paid audience, attendance rates and ticket proceeds were not properly presented. According to the FSA, the Government has reserved the right to specify the format of the Self-evaluation Report. Therefore, the HAB (as the Controlling Officer) needs to review the reporting basis of the Self-evaluation Report and take action to improve it. The HAB may also wish to ascertain whether similar improvements need to be made to the Self-evaluation Reports submitted by other performing arts groups (see para. 1.5).

Audit recommendations

3.10 **Audit has recommended that the Secretary for Home Affairs should:**

- (a) **work out with the HKCO an improved reporting basis for the Self-evaluation Report (including a reassessment of what performance information should be reported), with clear definitions and methodologies on the performance information to be compiled in the Report;**
- (b) **require other performing arts groups to adopt similar improvements in (a) above in their Self-evaluation Reports;**
- (c) **urge the performing arts groups (including the HKCO) to set up, if not already established, an appropriate mechanism to validate the information reported in the Self-evaluation Reports; and**
- (d) **require the performing arts groups to submit their Self-evaluation Reports to their governing boards and obtain their boards' endorsement of the Reports before submission to the HAB.**

Response from the Administration

3.11 The Secretary for Home Affairs agrees with the audit recommendations.

Response from the HKCO

3.12 The HKCO welcomes the audit recommendations. The Council Chairman, HKCO has said that:

- (a) it is a common practice in the local arts industry that the attendance rate is calculated based on the number of tickets sold at URB TIX plus complimentary tickets issued. The reason is that there is often variation between the actual attendance and the number of ticket stubs collected at the venue;
- (b) it is the practice of URB TIX to only allow up to a maximum number of 60 complimentary tickets for each performance, any additional “complimentary tickets” required have to be purchased. Since there is no pre-defined interpretation of “Ticket Proceeds” in the Self-evaluation Report, the HKCO took the literal interpretation and included all “Purchased Tickets” as ticket proceeds, whether or not they were purchased by external patrons or by the HKCO itself. The HKCO would like to emphasise that it has calculated “Ticket Proceeds” and “Attendance Rate” consistently in this manner over the years and there has never been any intention to mislead. The Government is fully aware of the HKCO policy and practice throughout the years;
- (c) given the need to more vigorously promote Chinese music by widening audienceship, the HKCO has to continue with some form of issuing HKCO-paid complimentary tickets for promotional purposes. However, the HKCO recognises the desirability to enhance clarity and transparency, in particular for the record, in its complimentary/promotional ticketing strategy;
- (d) to ensure optimal viewing and acoustic effects for the audience, the seating capacity and arrangements for each performance are formulated on a case-by-case basis. As such, the number of seats released for sale for each concert varies. This is in fact the usual practice of all performing arts groups. However, such variations may cause confusion. The HKCO, therefore, uses the pre-defined audience capacities of 1,496 seats (HKCC Concert Hall) and 1,206 seats (HKCH Concert Hall) as internal references to measure the performance of the concerts. The internal standards have been discussed and approved by the HKCO Council in a number of meetings;
- (e) LCSD representatives attended the related Council meetings and acknowledged that there were no guidelines in this regard, and that each performing arts group was allowed to come up with its own measuring system;
- (f) since then, the pre-defined audience capacities of 1,496 seats (HKCC Concert Hall) and 1,206 seats (HKCH Concert Hall) have been used fairly consistently in all concert reports presented at Council meetings and Self-evaluation Reports submitted to the Government; and
- (g) the HKCO will discuss with the LCSD and the HAB to explore if there is a better way to present the figures relating to audience capacity.

Controlling the issue of complimentary tickets

HKCO policy for issuing complimentary tickets

3.13 According to a Marketing Committee paper of January 2005, the HKCO issued complimentary tickets to:

- (a) entertain overseas guests and consular officials for public relations (PR) purposes;
- (b) enable the HAB and the LCSD to monitor the operation of the HKCO;
- (c) enable the LCSD and the music advisors to provide feedback and advice to the HKCO;
- (d) show appreciation to cultural and arts organisations, sponsors and working partners, and to explore opportunities for the sustainable development of the HKCO;
- (e) attract interest and support from the mass media;
- (f) encourage critics to write reviews on cultural presentations; and
- (g) let the Council monitor the operation of the HKCO.

3.14 As mentioned in paragraph 3.7(a), in 2008-09, the HKCO issued 5,262 complimentary tickets. Table 5 shows the distribution of these complimentary tickets by recipient categories.

Table 5
Distribution of complimentary tickets
(2008-09)

| Recipient category | Core programmes | | | |
|--|-----------------|------------|--------------|-------------|
| | Core business | VPS | Total | Percentage |
| (a) Sponsors | 1,317 | 34 | 1,351 | 26% |
| (b) Local media (for distribution to the public), performing arts groups, participating artists, and non-profit making organisations — for special PR and marketing purposes | 913 | 703 | 1,616 | 31% |
| (c) HKCO guests, including consular officials, composers and artists, guests from the cultural field, potential sponsors and strategic partners | 985 | 63 | 1,048 | 20% |
| (d) HKCO staff | 488 | 21 | 509 | 9% |
| (e) HKCO Council members and music advisors | 244 | 21 | 265 | 5% |
| (f) Journalists and critics | 153 | 14 | 167 | 3% |
| (g) Unused complimentary tickets | 291 | 15 | 306 | 6% |
| Total | 4,391 | 871 | 5,262 | 100% |

Source: HKCO records

Audit observations and recommendations

Strategy and monitoring system for issuing complimentary tickets

3.15 The HKCO strategy and monitoring system for issuing complimentary tickets are detailed at Appendix E. As explained by the HKCO in February 2010, it issued complimentary tickets to further promote Chinese music. **However, as compared with the complimentary ticket strategy of the LCS D which similarly holds a lot of cultural/festival presentations/events each year, Audit notes that the HKCO's complimentary ticket strategy is more generous and its monitoring system more relaxed.** Although both the HKCO's and the LCS D's complimentary ticket strategies served similar purposes and similar recipient categories, their strategies and monitoring systems varied. Table 6 shows the benchmarking result.

Table 6
Complimentary ticket strategies and monitoring systems
(January 2010)

| Aspect benchmarked | HKCO | LCSD |
|---|--|--|
| (a) Any quotas set? | Yes, quotas, similar to those of the LCSD, were set. However, the quotas applied to HKCO guests only (see item (c) in Table 5). Such quotas did not apply to other recipient categories (e.g. media, Council members). | Yes, quotas were set (Note). The quotas applied to all recipient categories. |
| (b) Exercise of discretion allowed? | <p>Discretion was allowed. If ticket sales for a particular concert did not reach 30% three weeks before it was held, the ED was authorised to:</p> <p>(i) issue complimentary tickets above the quotas (for HKCO guests only — see (a) above); and</p> <p>(ii) give out complimentary tickets for PR and marketing purposes.</p> <p>The issue of complimentary tickets under conditions (i) and (ii) above was to be limited to 10% of the total tickets available for sale. If the 10% limit was to be exceeded, approval from the Council Chairman was required.</p> | <p>No discretion was allowed. Special approval was required if the quotas were to be exceeded. LCSD staff could only be issued with a complimentary ticket for training purposes or performing direct official duty in a particular event.</p> |
| (c) Complimentary tickets issued to sponsors | Not governed by the quotas in (a) above. Sponsors were issued with complimentary tickets according to an approved scale. The number of complimentary tickets to be issued was a few times more than that of the LCSD for similar amount of sponsorship. | Subject to (i) the quotas in (a) above and (ii) the quotas set in separate sponsorship guidelines. For (ii), a sponsorship of \$0.4 million to \$0.6 million would be entitled, at most, to the issue of 40 complimentary tickets. Special approval was required if these quotas were to be exceeded. |

| Aspect benchmarked | HKCO | LCSD |
|---|--|---|
| | <p>The ED was allowed to approve complimentary tickets to be offered to sponsors up to a maximum ticket value of \$100,000, with amount exceeding \$100,000 approved by the Chairman of the Marketing Committee (see para. 2.3(c)).</p> | <p>The actual number of complimentary tickets to be issued would be determined with reference to the overall percentages of complimentary tickets in relation to the total venue capacity, and the sponsorship amount in relation to the overall programme budget. The general rule was that the total value of complimentary tickets issued should not exceed 5% of the sponsorship amount.</p> |
| (d) Monitoring of recipients' attendance? | <p>Yes, but mainly for Council members and particular HKCO guests only (see items (c) and (e) in Table 5). The HKCO would report their attendance information by way of stating "No show" in its Recipients' Lists submitted to the Council for review.</p> <p>But generally no for other recipient categories (e.g. local media), except for cases when the recipients were asked to pick up their complimentary tickets in person at the places where the concerts were held, in which case the HKCO might know whether they had shown up or not.</p> | <p>Yes. When distributing complimentary tickets, recipients were advised to return the tickets or inform the programme office if they eventually could not attend the concerts.</p> <p>To monitor recipients' attendance, a register of complimentary tickets issued was kept. The name of the ticket holder was also written on the ticket stubs, so that venue staff could check attendance against the guest list. After each concert, a "No show" list would be produced. Recipients with a high rate of "No show" would be considered for removal from the guest list.</p> |

Source: Audit analysis of HKCO and LCSD records

Note: Quotas were set based on the venue capacity. For example, for a concert to be held at a venue with 1,301 to 1,700 seats, the LCSD could, at most, issue 50 complimentary tickets, and, for a venue with 1,701 to 2,000 seats, at most, 60 complimentary tickets.

3.16 **Given that the HKCO's activities are mainly subsidised by the Government (see para. 3.2), the issue of complimentary tickets for its concerts needs to be carefully controlled.** Besides, Audit is concerned that the frequent distribution of large numbers of complimentary tickets might not be in the interest of the HKCO. Some concert-goers would be hesitant to purchase tickets.

3.17 For a government-subsidised concert, tickets should be offered for sale to the public as far as possible (in line with the Government's cultural policy — see para. 1.2). Table 5 shows that the 5,262 complimentary tickets issued in 2008-09 accounted for 12% of total audience (42,243 persons — items (c), (d), (i) and (j) of Table 4 in para. 3.8), which means that only 88% of the tickets were purchased by the public. The increase in the 2009-10 expenditure on purchasing complimentary tickets (see Table 2 in para. 3.7(c)) is also a matter of audit concern.

3.18 **Audit considers that the HKCO needs to critically review its complimentary ticket strategy and monitoring system with due regard to the principle of prudence and good value for money, and making reference to the LCSD's complimentary ticket strategy and monitoring system. At the same time, the HKCO needs to explore more effective measures to promote concert ticket sales and, in collaboration with the HAB, explore more effective ways to promote Chinese music to the community in the long term.**

Good initiatives that should be further promoted

3.19 In 2008-09, the HKCO purchased 3,575 tickets at a sponsoring company's request for free distribution. The tickets were included as revised paid audience in Table 4 of paragraph 3.8 (see Note 2 to the Table). Under that scheme ("Chinese Music Alive" Scheme), in return for a sponsorship of \$4.2 million over 3 years from the company, the HKCO issued/would issue some 7,000 tickets (up to the value of \$1.05 million) for selected concerts to the youth and the underprivileged. The HKCO also organised pre-concert talks, educational day-time concerts, educational workshops and competitions to enable the participants to enjoy cultural life and to understand Chinese music better.

3.20 As part of the sponsoring agreement entered between the HKCO and the company, the HKCO was obliged to conduct surveys to collect responses from the concert participants and to submit half-yearly evaluation reports to the company for review. In the two evaluation reports submitted for 2008-09 and the first report for 2009-10, the HKCO reported that the scheme had very positive feedback — almost all participants indicated that they enjoyed the concerts and wished to attend similar concerts in future. In its first evaluation report for 2009-10, the HKCO concluded that the scheme had helped enhance and develop Chinese music and, through concerts and pre-concert talks and workshops, the participants were able to achieve spiritual satisfaction and acquire an enhanced understanding of Chinese music. **The HKCO further concluded that in future, it would more actively plan and organise similar educational programmes to promote Chinese music.**

3.21 Apart from this special promotion scheme, the HKCO also set up in 2005 on its own initiative a “Music for Love” Scheme to invite donations for purchasing concert tickets for charitable organisations. The spirit was to bring the beauty of Chinese music to the underprivileged sectors of the community (including low-income families, seniors, orphans, people with disabilities and single parent families) and to bring Chinese music to their centres/schools. However, for 2008-09, only 168 complimentary tickets (costing some \$25,000) were distributed under the scheme. **Audit welcomes the HKCO’s initiative, but considers that it needs to step up its efforts to plan and promote similar kinds of schemes.**

Documentation to support the issue of complimentary tickets

3.22 Audit selected for examination 7 concerts (involving 12 performances) held in 2008-09. For these 7 concerts, the HKCO issued some 3,000 complimentary tickets. Audit has the following observations from an examination of the HKCO system and procedures for issuing complimentary tickets (details are at Appendix F):

- (a) ***Records of ticket requests and of ticket acknowledgement.*** Although certain informal records of ticket requests (such as e-mails and distribution lists) were sometimes kept, a proper and complete written record of all ticket requests was not always maintained. Moreover, there was no documentation to signify ticket acknowledgement by recipients. For example, the HKCO had issued for one concert 288 complimentary tickets to various groups of participating artists (for special PR and marketing purposes). There was however no written record of any ticket requests, and no written record of ticket acknowledgement. Similarly, the HKCO had issued for another concert 76 complimentary tickets to one performing arts group (again for special PR and marketing purposes). There was again no written record of any ticket request from the group, and no ticket acknowledgement;

- (b) ***Documentation on justifications and on approvals for additional complimentary tickets issued.*** In many cases, there were no justifications on record, and no written approvals having been obtained for issuing additional complimentary tickets. Case 3 is an example. In some cases, additional complimentary tickets were issued “with verbal approval from the Council Chairman” (as stated in the Recipients’ Lists), without evidence that written approval had subsequently been given. Examples are the issue to two local media firms of 100 complimentary tickets for one concert (Case 3) and 155 complimentary tickets for another concert (Case 4);

Case 3

Concert 14 (two performances) at HKCC

1. A company had sponsored a sum (less than \$0.3 million) for one performance of the captioned concert. In return, it was issued with 506 complimentary tickets (costing the HKCO half of the sponsorship amount) for the performance.

2. The issue of 506 complimentary tickets in return for the sponsorship exceeded the sponsor’s entitlement under which 100 complimentary tickets should have been issued. There was, however, no documentary justification for the issue of additional complimentary tickets to the sponsoring company and no record of approval having been obtained from the Chairman of the Marketing Committee (Note).

3. Besides, for the other performance of the captioned concert, the HKCO issued a total of 100 complimentary tickets to two local media firms. There was again no record of the justification and of written approval from the Council Chairman.

Source: HKCO records

Note: Approval from the Chairman of the Marketing Committee should have been obtained when the total ticket value exceeded \$100,000 (see item (c) in Table 6 in para. 3.15).

Case 4

Concert 25 (two performances) at HKCC

For one performance of the captioned concert, the HKCO issued a total of 155 complimentary tickets to two local media firms. There was no record of the justification for issuing such a great number of complimentary tickets to the media. Written approval had not been obtained from the Council Chairman.

Source: HKCO records

- (c) ***Need to step up efforts to collect feedback from audience.*** The HKCO has a system for collecting audience feedback through posting a standard questionnaire on its website. However, for the four years from 2006 to 2009, the HKCO only received three completed questionnaires. Although the HKCO might also have collected informal feedback from its guests and staff through discussions and gatherings during concert breaks, it needs to set up a proper system to collect audience feedback (particularly from the complimentary ticket audience). In this connection, the system of conducting surveys and compiling half-yearly evaluation reports under the “Chinese Music Alive” Scheme (see para. 3.20) is a good practice that should be promoted; and
- (d) ***Recipients’ records not submitted for review.*** There was no written record showing that the Recipients’ Lists (including recipients’ attendance) for all 7 concerts had been submitted to the Council for review.

Concerts held as “private functions” for commercial sponsors

3.23 There were two occasions (one in 2008-09 and another in 2009-10) when the regular concerts were arranged as “private functions” (with tickets not available for public sales) for commercial sponsors, as detailed below.

Case 5

**One concert (two performances) at the HKCC
(2008-09)**

1. According to the FSA, the HKCO should present to the public two performances of the captioned concert. In the event, the first performance of this concert was open to the public for ticket sales whereas the second performance was arranged as a private function for one commercial sponsor. For the latter performance, 1,557 tickets were sold/issued.

2. Of the 1,557 tickets sold/issued, 1,464 (94% — Note) tickets were taken up by the sponsoring company which was issued with 100 complimentary tickets for its sponsorship of \$100,000, and was allowed to purchase the other 1,364 tickets (purchased by the HKCO on its behalf at a cost of some \$159,000). In addition, the sponsoring company was entitled to have its name published in all promotional materials relating to the performance, and an exclusive right to hold receptions at the venue.

3. The HKCO publicised in press releases, leaflets and brochures that the second performance was sponsored by a company and tickets would not be available for public sales.

4. Based on the HKCO records, the concert (with 2 performances) had incurred a deficit of \$200,000 without including any apportionment of local artistic staff's salaries and other indirect operating expenses, such as administrative staff's salaries.

Audit comments

5. While Audit appreciates the HKCO's effort to expand the income and audience base in allowing the second performance to be held as a private function, there is a need to charge the commercial sponsor the full cost of the services. This is to avoid the cross-subsidisation of a private function by government fund (see para. 1.6(d)).

Source: HKCO records

Note: For the remaining 6% tickets, 4% were taken up by members of the public during the advance booking period (before the performance was announced to be held as a private function), and 2% were complimentary tickets issued by the HKCO to its guests, Council members and staff.

Case 6

One concert (two performances) at the HKCC (2009-10)

1. According to the FSA, the HKCO should present to the public two performances of the captioned concert. In the event, the first performance of this concert was open to the public for ticket sales whereas the second performance was arranged as a private function for one commercial sponsor. For the latter performance, 1,679 tickets were issued, including 1,630 complimentary tickets issued to the sponsoring company in return for its sponsorship of less than \$0.4 million.

2. The issue of 1,630 complimentary tickets to the sponsoring company had, similar to Case 3, exceeded the sponsor's entitlement under which 200 complimentary tickets should have been issued. In addition, the sponsoring company was entitled to have its name published in all promotional materials relating to the performance, and an exclusive right to hold receptions at the venue.

3. The HKCO publicised in press releases, leaflets and brochures that the second performance was a private function organised for the sponsoring company, and tickets would not be available for public sales.

4. Audit noted that in addition to 17 free complimentary tickets, the HKCO spent some \$358,000 on purchasing 1,662 complimentary tickets (1,630 to be issued to the sponsoring company and 49 to HKCO guests and staff). The HKCO also incurred another \$350,000 on overseas artists' and performers' fees, venue rental, and marketing expenses. This means that the second performance was held at a deficit, without including any apportionment of local artistic staff's salaries and other indirect operating expenses.

Audit comments

5. The sponsorship only covered the cost of the HKCO-paid complimentary tickets issued to the sponsoring company, but not other costs of organising the performance. While Audit appreciates the HKCO's effort to expand the income and audience base in allowing the second performance to be held as a private function, there is a need to charge the commercial sponsor the full cost of the services. This is to avoid the cross-subsidisation of a private function by government fund (see para. 1.6(d)).

Source: HKCO records

3.24 Given that the HKCO's cost recovery rate was only 18% for 2008-09 (estimated at 19% for 2009-10), its regular concerts had been extensively subsidised by the Government. The practice of organising concerts (with the Government's subsidy) as private functions for commercial sponsors needs to be critically reviewed. Without discouraging commercial sponsorship and without refusing requests for organising concerts as private functions for sponsors, the HKCO may need to explore the feasibility of requiring the commercial sponsors to bear the full cost of the concerts.

Audit recommendations

3.25 **Audit has recommended that the HKCO should:**

Strategy and monitoring system for issuing complimentary tickets

- (a) **critically review, and revise as appropriate, its complimentary ticket strategy and monitoring system with due regard to the principle of prudence and good value for money, and making reference to the LCSO's complimentary ticket strategy and monitoring system;**
- (b) **explore more effective measures to promote the ticket sales of its regular concerts, and in collaboration with the HAB, explore more effective ways to promote Chinese music to the community in the long term;**

Good initiatives that should be further promoted

- (c) **step up its efforts to plan and organise educational programmes (similar to the "Chinese Music Alive" Scheme) to promote Chinese music among the youth and the underprivileged;**

Documentation to support the issue of complimentary tickets

- (d) **maintain proper records of ticket requests and ticket acknowledgement;**
- (e) **improve the documentation on justifications and approvals for additional complimentary tickets issued;**
- (f) **set up a proper system to collect audience feedback (particularly from those complimentary ticket audience), making reference to the good practice of conducting surveys and compiling half-yearly evaluation reports under the "Chinese Music Alive" Scheme;**

- (g) **enforce the requirement for submission of the Recipients' Lists (including their attendance) to the Council; and**

Concerts held as “private functions” for commercial sponsors

- (h) **require commercial sponsors to bear the full cost of concerts to be held as private functions for them.**

Response from the HKCO

3.26 The HKCO welcomes the audit recommendations. The **Council Chairman, HKCO** has said that:

General

- (a) the HKCO will take the audit recommendations into consideration when devising its marketing and ticketing strategy in the future;

Comparison with the LCSD strategy and monitoring system

- (b) the HKCO and the LCSD are two different types of organisations. While the LCSD is a government department fully funded by public money, the HKCO was corporatised for “greater autonomy in its artistic vision, more administrative flexibility, and more community involvement and support” (see para. 1.4);
- (c) as a subvented organisation, the HKCO vigilantly abides by the prudent budget principles. Nevertheless, the HKCO is always on the outlook for sponsorship for branding and positioning purposes in order to become a viable and sustainable performing arts group in the long term by embracing, inter alia, the PPP model so promoted by the Government and the community. One should perhaps not draw a straight comparison of the marketing and ticketing strategy between the LCSD and the HKCO;
- (d) the level of appreciation and acceptance of classical Chinese orchestral music among Hong Kong people is still low. There is a huge need for public education and promotion to raise the level of interest. Issuing complimentary tickets to the potential audience groups is part of the HKCO’s marketing strategy, which has been planned carefully and professionally and approved by the Council. Efforts of promotion may vary having regard to the popularity of a particular concert or event for optimal results (see the general response in para. 1.12);

Strategy for issuing complimentary tickets

- (e) many complimentary tickets were distributed to sponsors, local and overseas arts organisations, educational institutions, charitable organisations, co-organisers, and government and consular officials. All these are the HKCO's target audience groups, which can help enhance the awareness of Chinese orchestral music in the long term;
- (f) a portion of the complimentary tickets was provided to media firms on a "barter" basis, which in turn has resulted in free publicity for the HKCO. With the advertising costs saved and the marketing effects gained from the "barter" arrangements with the media, the benefits are far greater than the sum of money generated from sales of these tickets;

Good initiatives that should be further promoted

- (g) the HKCO is delighted that Audit acknowledges that the "Chinese Music Alive" and "Music for Love" Schemes are good initiatives, and that they should be further promoted;
- (h) the "Chinese Music Alive" Scheme was funded by a sponsor to give youngsters and people of underprivileged background an opportunity to attend a concert;
- (i) the "Music for Love" Scheme was funded by donations collected from the public, which was scaled down because of reduction in funds raised amid the global financial downturn;
- (j) in the same vein, the HKCO has been encouraging the private sector to sponsor these activities in order to nurture Chinese music appreciation in Hong Kong. The HKCO will continue to identify appropriate sponsors to allow people who otherwise may not have the chance to attend concerts to be exposed to Chinese music;

Documentation to support the issue of complimentary tickets

- (k) the HKCO will consider improving the documentation system in the future. Nonetheless, it would like to emphasise that it has maintained a reasonable record of ticket requests and ticket acknowledgement (see para. 3.22(a) and Appendix F), and all records are tabled for review at Council meetings although they are not recorded in the minutes of Council meetings;

- (l) based on the HKCO's experience, most attendees are not keen to fill in feedback forms. Moreover, to encourage a paperless environment, the HKCO has a system for collecting audience feedback through posting a standard questionnaire on its website (see para. 3.22(c));
- (m) the HKCO staff will also collect opinions from complimentary ticket holders proactively after a concert;
- (n) the HKCO acknowledges the need to explore other feasible ways of collecting audience feedback (such as that used in the "Chinese Music Alive" Scheme), whenever applicable;

Concerts held as "private functions" for commercial sponsors

- (o) as stated in (c) above, it is the HKCO's long-term strategy (i.e. PPP) to encourage sponsorship from the private sector. In 2009-10, the concert (2 performances) in Case 6 (see para. 3.23) was held successfully with the sponsorship from a company. While one performance was reserved for the sponsor, the other was open to the public. Based on the HKCO's experience, the money generated from ticket sales for a concert of similar scale and nature would only be around 80% of the total income of the sponsored concert. This is because a number of tickets are sold at a concessionary rate, such as those for students and senior citizens (rather than the full ticket prices). Therefore, the sponsorship has resulted in a higher financial return to the HKCO and a lower subsidy rate for the Government;
- (p) moreover, the private sponsor should also be considered as a member of the public, and is entitled to purchase as many tickets as it wishes so long as it pays for the tickets; and
- (q) the HKCO will continue to seek collaboration and sponsorship from the private sector in its effort to promote Chinese music.

Formulating the seating and ticketing strategy

3.27 As mentioned in paragraph 3.7(d)(ii), the HKCO always used a pre-defined audience capacity (instead of the "maximum audience capacity" of the venue) for calculating the attendance rates. As a common practice, it would "withhold" from ticket sales seats in less favourable viewing positions (i.e. seats with restricted sightline) or seats with sound effect hampered — which were collectively termed as "temporarily blocked seats".

Audit observations and recommendations

Need to review the number of temporarily blocked seats

3.28 For 2008-09, there were concerts where the HKCO had allocated 0% to 4% of the seats as temporarily blocked seats, but there were also concerts where the HKCO had allocated 20% to 27% of the seats for the same. Examples are given in Table 7. The seating plan of one concert with 25% of the seats allocated as temporarily blocked seats is shown in Figure 2.

Table 7

**Concerts held at the HKCC with many temporarily blocked seats
(2008-09)**

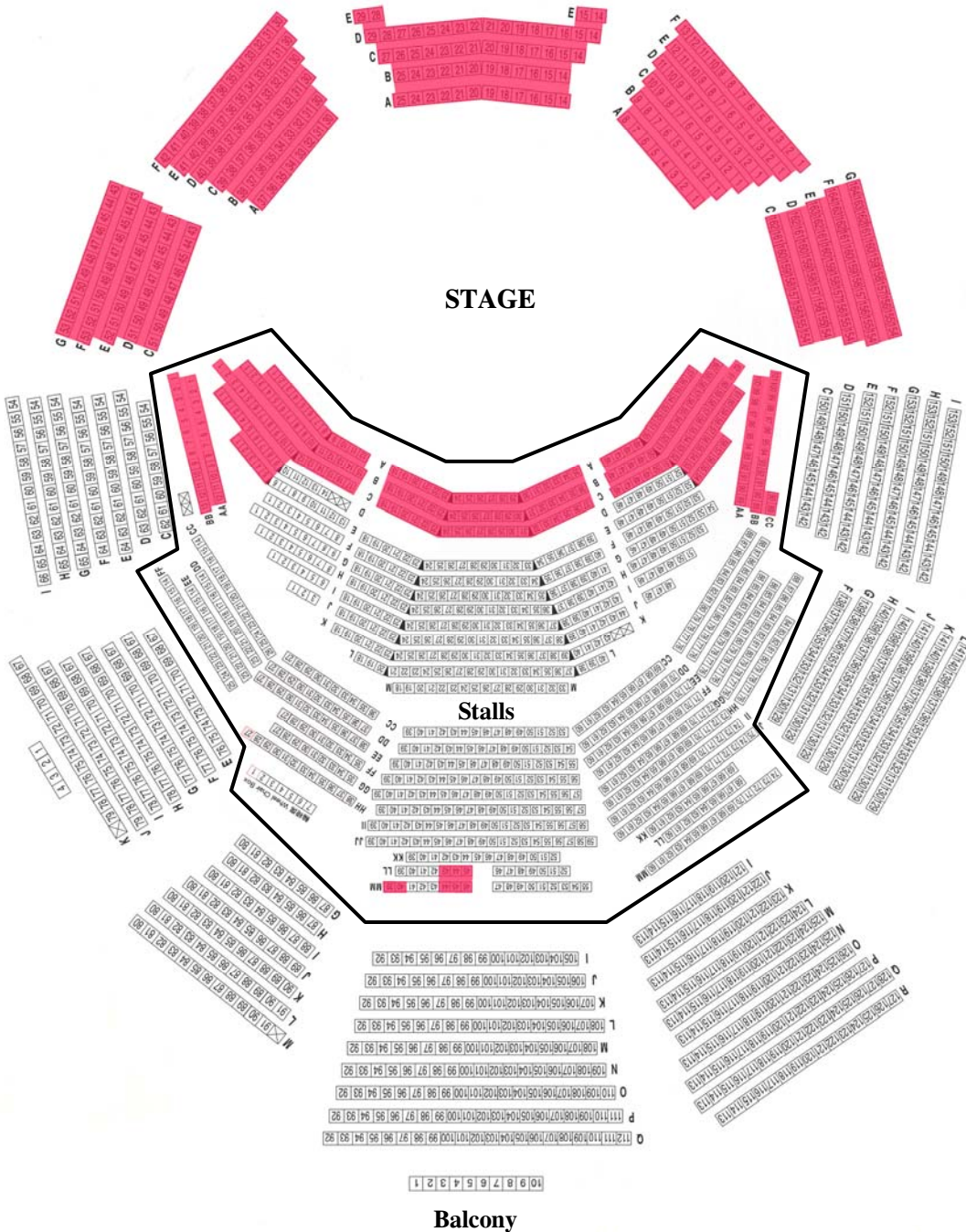
| Concert | Venue (Note 1) | Number of seats in use (URBTIX) (a) | Number of temporarily blocked seats (Note 2) (b) | (b) as a percentage of venue capacity $(c) = \frac{(b)}{1,997} \times 100\%$ |
|---------------------------------|-------------------|--|--|--|
| Concert 2 (2nd performance) | HKCC | 1,557 | 440 | 22% |
| Concert 14 | HKCC | 1,588 | 409 | 20% |
| Concert 17 | HKCC | 1,469 | 528 | 26% |
| Concert 25 (1st performance) | HKCC | 1,451 | 546 | 27% |
| Concert 25 (2nd performance) | HKCC | 1,449 | 548 | 27% |
| Concert 29 | HKCC | 1,488 (see Figure 2) | 509 | 25% |

Source: HKCO records

Note 1: Venue capacity for the HKCC Concert Hall is set at 1,997 seats for each concert (maximum audience capacity of 2,005 seats less a minor adjustment of 8 seats reserved by the LCSD for venue management purposes).

Note 2: Such temporarily blocked seats were neither offered for ticket sales nor used for issue of complimentary tickets.

Figure 2
Seating plan for Concert 29 held at HKCC



Legend: Temporarily blocked seats

Source: LCSD records

3.29 The allocation of too many seats as temporarily blocked seats may not be conducive to efficient and effective use of resources. This arrangement is not desirable for the long term given that the HKCO has a role to enlarge its audience base and to promote the development of Chinese music in the community. **Therefore, Audit considers that the HKCO needs to review its seating and ticketing strategy, and consider possible ways to optimise the number of seats for each concert.** These may include exploring the desirability of offering temporarily blocked seats for ticket sales at discounted prices and the feasibility of offering concessionary student tickets to schools.

3.30 The positive feedback from the participants (particularly the youth) under a special promotion scheme (see para. 3.20) may be indicative that there is potential for further development of Chinese music. Besides, the HKCO Marketing Manual has already allowed the ED to offer concessionary tickets to schools (70% discount and at a minimum price of \$20) for concerts with ticket sales not reaching 30% three weeks before the concerts are held. However, as far as could be ascertained, this arrangement had rarely been used.

3.31 Audit further noted that the temporary blocking of more than 20% of the seats for concerts held at the HKCC was high as compared with the common practice of withholding only 14% in the case of concerts organised by another performing arts group.

Audit recommendations

3.32 **Audit has recommended that the HKCO should:**

- (a) **review its seating and ticketing strategy and consider possible ways to optimise the number of seats for each concert;**
- (b) **explore the desirability of offering temporarily blocked seats for ticket sales at discounted prices; and**
- (c) **offer concessionary tickets to schools for concerts with ticket sales not reaching 30% three weeks before the concerts are held, as laid down in the Marketing Manual.**

Response from the HKCO

3.33 The HKCO welcomes the audit recommendations. The **Council Chairman, HKCO** has said that:

- (a) the HKCO upholds the highest professional standard and is adamant about providing the best acoustic and viewing experience for audience. Releasing undesirable seats would compromise the artistic effects of the performances; and
- (b) the HKCO will review its policy on the issue of concessionary tickets as necessary. In the past, it has tried to offer tickets at \$20 to schools when only 30% of the tickets are sold three weeks before a concert is to take place. However, this is not always feasible as three weeks is a rather short notice for internal approval and administration on the part of the schools.

PART 4: HUMAN RESOURCES MANAGEMENT

4.1 Staff expenses accounted for some 66% of the 2008-09 expenditure of the HKCO (see para. 1.9). This PART examines the following human resources management issues of the HKCO:

- (a) working hours of artistic staff (paras. 4.2 to 4.9);
- (b) work deployment of outgoing artistic staff (paras. 4.10 to 4.15);
- (c) duty visits outside Hong Kong (paras. 4.16 to 4.26); and
- (d) management of research and development (R&D) officer (paras. 4.27 to 4.36).

Working hours of artistic staff

4.2 In 2009-10, the HKCO has 88 artistic staff on its establishment (Note 8). They are employed on contract terms. Their duties include live performances, rehearsals, performances for audio-visual production and broadcasting, and educational and training work. With the exception of the AD, the resident conductor and the R&D officer, the employment contracts of other artistic staff have the following provisions regarding their working hours, leave and overtime work arrangements:

- (a) **Working hours.** Artistic staff are required to work 28 hours a week (Note 9). Their work is scheduled into sessions of, normally, 3 hours or less each. The number of work sessions for each artistic staff will not be more than 10 in a week;
- (b) **Leave.** There is a rest day for every working week. Artistic staff are also entitled to general holidays and 35 days of annual leave each year. Intervening Sundays and general holidays within an annual leave period are counted as part of the leave; and

Note 8: *The artistic staff comprise the AD, the resident conductor, the R&D officer and other musicians working for the 4 sections of the orchestra (i.e. bowed-string section, percussion section, plucked-string section and wind section).*

Note 9: *A week refers to a period of seven consecutive days counting from Sunday to Saturday. According to the Human Resources Manual, artistic staff's conditioned working hours for a month should be 122 ($28 \times 365/7 \times 1/12$) hours.*

- (c) **Overtime work.** Any work in excess of 28 hours a week will be counted as overtime work. The staff concerned will be granted time off for the equivalent hours of overtime work.

Audit observations and recommendations

Utilisation of artistic staff resources

4.3 According to the orchestra's monthly activities, the HKCO issues a duty roster of artistic staff for every 4-week period. The roster is distributed one week before the beginning of the relevant period. Audit sample checked the duty rosters for the months of April, May, September and December 2008. The results are shown in Table 8. With the exception of May 2008, the scheduled working hours for the other three months were less than the conditioned working hours. **In fact, not every scheduled work item required the attendance of all artistic staff (Note 10).** Even if an artistic staff participated in all the scheduled work, his total working hours for the four months were 375, which were still less than the total conditioned working hours of 424 by 49 (12%).

Note 10: *For example, some rehearsals were held for specific sections of the orchestra, such as the ones held on 11 December 2008 with the morning session for staff of the bowed-string and wind sections and the afternoon session for staff of the plucked-string and percussion sections.*

Table 8
Scheduled working hours
(April, May, September and December 2008)

| Activities | Scheduled working hours | | | | |
|--|-------------------------|-----------|-------------|-------------|-------------|
| | April | May | September | December | Total |
| (a) Rehearsals | 65 | 90 | 38 | 57 | 250 |
| (b) Performances (Note 1) | 8 | 10 | 7 | 12 | 37 |
| (c) Outreach community activities (Note 1) | 9 | 6 | 3 | 4 | 22 |
| (d) Other activities (e.g. self-practices and meetings) | 24 | 18 | 24 | — | 66 |
| (e) Total scheduled working hours (e)=(a)+(b)+(c)+(d) | 106 | 124 | 72 | 73 | 375 |
| (f) Conditioned working hours (Note 2) | 116 | 110 | 88 | 110 | 424 |
| (g) Excess/(Shortfall) of scheduled working hours (g) = (e) – (f) | (10) | 14 | (16) | (37) | (49) |

Source: Audit analysis of HKCO data

Note 1: The scheduled working hours for performances and outreach community activities were based on the attendance records as the duration of these activities was not specified in the duty rosters.

Note 2: The conditioned working hours of a month were calculated by deducting from 122 hours (see Note 9 to para. 4.2(a)) the hours of general holidays (assuming 6 hours per day), and also the scheduled 1-week annual leave (i.e. 28 hours) in the case of September 2008 (see para. 4.6).

4.4 The HKCO maintains manual attendance records of artistic staff participating in HKCO's work. Based on the 2008-09 duty rosters and attendance records, Audit compiled in Table 9 the actual working hours for a sample of 20 artistic staff (covering three different ranks and all four sections of the orchestra). It can be seen that their actual working hours averaged 703 which were 533 (43%) less than the conditioned working hours of 1,236 (Note 11) for that year.

Note 11: The conditioned working hours for 2008-09 were calculated by deducting from 1,460 hours (i.e. $28 \times 365/7$) the hours of the 14-day general holidays (i.e. $6 \text{ hours} \times 14$) and the 5-week annual leave (i.e. $28 \text{ hours} \times 5$).

Table 9
Actual working hours for 2008-09

| Staff | Actual working hours (a) | Shortfall in working hours (in comparing with conditioned hours) | |
|-----------------------|-----------------------------|---|---|
| | | (b) = 1,236 - (a) | (c) = $\frac{(b)}{1,236} \times 100\%$ (%) |
| Principal 1 | 716 | 520 | 42 % |
| Principal 2 | 719 | 517 | 42 % |
| Principal 3 | 709 | 527 | 43 % |
| Assistant principal 1 | 715 | 521 | 42 % |
| Assistant principal 2 | 720 | 516 | 42 % |
| Assistant principal 3 | 763 | 473 | 38 % |
| Musician 1 | 691 | 545 | 44 % |
| Musician 2 | 662 | 574 | 46 % |
| Musician 3 | 615 | 621 | 50 % |
| Musician 4 | 611 | 625 | 51 % |
| Musician 5 | 696 | 540 | 44 % |
| Musician 6 | 695 | 541 | 44 % |
| Musician 7 | 696 | 540 | 44 % |
| Musician 8 | 745 | 491 | 40 % |
| Musician 9 | 679 | 557 | 45 % |
| Musician 10 | 705 | 531 | 43 % |
| Musician 11 | 738 | 498 | 40 % |
| Musician 12 | 701 | 535 | 43 % |
| Musician 13 | 715 | 521 | 42 % |
| Musician 14 | 775 | 461 | 37 % |
| Total | 14,066 | 10,654 | — |
| Average | 703 | 533 | 43% |

Source: Audit analysis of HKCO data

4.5 **Both the analyses of duty rosters and attendance records (Tables 8 and 9) indicated that there were spare artistic staff resources that had not been put to beneficial use in 2008-09.** Audit reviewed the deployment of artistic staff on different activities. According to Table 8, of the 375 working hours scheduled for the four months, 287 (250 + 37) were related to performances and rehearsals. There were only 22 working hours for outreach community activities. Outreach community activities are important for the promotion and education of Chinese music (see para. 1.8) which in turn would help expand the audience base of the orchestra. In 2008-09, the HKCO organised 75 outreach community activities, of which 40 (53%) had artistic staff's input (Note 12). In total, artistic staff worked 1,014 hours on these activities. The HKCO needs to put spare artistic staff resources to beneficial use, such as engaging them more on outreach community activities.

Annual leave

4.6 According to their employment contracts (see para. 4.2(b)), the artistic staff are entitled to 35 days of annual leave for each contract year (from September to August of the following year). It is the usual practice of the HKCO to arrange the artistic staff to take their annual leave mainly during the summer recess of the orchestra (August and early September). In an examination of the annual leave records for four contract years (2005-06 to 2008-09), Audit found that the artistic staff were granted more leave than their entitlement in three years (see Table 10). There was no record showing the justification for the excess annual leave granted. The HKCO needs to tighten the control in this regard.

Note 12: *Artistic staff were mainly involved in delivering performances, talks and music appreciation workshops for 40 outreach community activities. The remaining 35 (75 – 40) activities manned by administration staff were mainly co-organised music programmes (for which the HKCO played a liaison and administrative role) and guided-tours of the backstage.*

Table 10

**Annual leave granted per artistic staff
(Contract years 2005-06 to 2008-09)**

| Contract year | Annual leave granted (a) | Excess over entitlement (b) = (a) – 35 days |
|----------------------|-------------------------------------|--|
| 2005-06 | 37 days | 2 days |
| 2006-07 | 40 days | 5 days |
| 2007-08 | 36 days | 1 day |
| 2008-09 | 35 days | 0 day |

Source: HKCO records

Time off for overtime work

4.7 According to their employment contracts, the artistic staff will be granted time off for the equivalent hours of overtime worked in excess of the stipulated 28 hours a week. In an examination of the attendance records for December 2008, Audit found that for the week from 14 December (Sunday) to 20 December (Saturday), the artistic staff worked less than the stipulated 28 hours (Note 13). However, they were granted time off on the following two occasions which were not consistent with the contract provisions:

- (a) for a rehearsal session held in the afternoon of 18 December 2008, the HKCO record showed that the actual practising time exceeded the scheduled 3 hours by 3 minutes but one-day time off was granted to all participating artistic staff; and
- (b) for another rehearsal session held in the afternoon of 19 December 2008, the HKCO record showed that 2-day time off was granted to all participating artistic staff, i.e. one day for their good performance during the session and another day for the anticipated 30-minute overtime work due to the early start of the following day's rehearsal (before performance) at 7:00 p.m. instead of the originally scheduled 7:30 p.m.

Note 13: As shown in Table 8 in paragraph 4.3, their scheduled working hours for December 2008 were also less than the conditioned working hours.

The HKCO needs to remind all supervisors to check that their subordinate staff have worked in excess of the conditioned working hours before granting them time off for the equivalent hours of overtime work.

Audit recommendations

4.8 **Audit has recommended that the HKCO should:**

Utilisation of artistic staff resources

- (a) **closely monitor the working hours of artistic staff to ensure that they are gainfully employed in accordance with the employment contract provisions;**
- (b) **put any spare artistic staff resources to beneficial use, such as engaging them more on outreach community activities;**

Annual leave

- (c) **tighten the control over annual leave to ensure that staff are not granted more leave than their entitlement; and**

Time off for overtime work

- (d) **remind all supervisors to check that their subordinate staff have worked in excess of the conditioned working hours before granting them time off for the equivalent hours of overtime work.**

Response from the HKCO

4.9 The HKCO welcomes the audit recommendations. The **Council Chairman, HKCO** has said that:

- (a) the HKCO will explore the possibility of putting artistic staff to beneficial use whenever possible;
- (b) for the most part of the preparation for a concert, many musicians work on their own rather than at a designated venue. This is in line with international and national practices, and common to western music groups as well;

- (c) the working hours, leave and overtime work arrangements as stipulated in the employment contracts are to protect the rights of the musicians and the orchestra. The working hours for group rehearsals are only the minimum to ensure that there is an assured amount of time for group rehearsals to meet with the artistic requirements in line with international practices;
- (d) it is difficult to quantify the “working hours” of these individual practice sessions. To give an example, for a concert to be staged in March 2010 at the Hong Kong Arts Festival, musicians are required to play 298 pages of new scores. On average, it takes 30 minutes to one hour for a musician to analyse and become familiar with one page of a new or difficult score. Therefore, a total of 149 (298×0.5) hours are required in addition to the 28-hour per week rehearsals for this concert. In an effort to popularise and modernise classical Chinese music, the HKCO has commissioned over 1,900 new pieces, which have been widely recognised. Therefore, musicians will need to devote considerable time in practising new compositions;
- (e) the 28 hours of group rehearsals per week do not take into account self-practices and small group rehearsals, as well as publicity and outreach work such as individual recitals, interviews and shooting and meetings (Note 14);
- (f) there are also other constraints resulting in the shortfall of working hours. School holidays, western festive activities at shopping malls by other organisations, and a lack of venues available for performances are some of the contributing factors. December, for instance, is an “especially slow” month for the HKCO as schools are on holiday and shopping malls are usually occupied with Christmas events; and
- (g) in arts management, time off will be provided on a day when regular concerts or outreach activities cannot be arranged due to reasons stated above. The HKCO used to pay for overtime work, which posed pressure on its expenditure. Such pressure was alleviated by introducing the time-off system, following the cultivation of a congenial rapport with the trade union and staff.

Note 14: *In the analyses of scheduled working hours (Table 8 in para. 4.3) and actual working hours (Table 9 in para. 4.4), Audit has included the time of performances, rehearsals, outreach community activities, self-practices, meetings and other activities as shown in HKCO records.*

Work deployment of outgoing artistic staff

4.10 According to the employment contract terms, the HKCO shall agree with an artistic staff on renewal matters three months before the expiry of his existing contract. At its meeting held on 15 May 2009, the Council considered whether to renew some artistic staff's contracts which would expire on 31 August 2009. After discussion, it was decided not to renew the contracts with three artistic staff.

4.11 On 10 June 2009, the ED reported to the Council that:

- (a) the three staff concerned had been informed that their contracts would not be renewed;
- (b) they had not participated in the HKCO performances since mid-May 2009 and would continue to be so till end of August 2009; and
- (c) the vacancy left by one of the staff would be filled up by an acting appointment.

Audit observations and recommendation

4.12 The three outgoing artistic staff were paid \$323,000 salaries from mid-May to end of August 2009 but were not assigned any duties during this period. This might not be a desirable arrangement from the value for money point of view. The HKCO needs to gainfully employ its outgoing staff up to the end of their contract periods. Where there are practical difficulties to do so, the HKCO needs to explore ways to minimise any nugatory expenditure. In this connection, Audit notes that there is a provision in the employment contract for either party to terminate the contract by giving one-month advance notice or paying one-month salary in lieu.

4.13 According to the Council minutes and papers, during its meeting on 15 May 2009, the Council was not informed of the arrangement that the three outgoing artistic staff would not be assigned any duties for the remainder of their contract periods while continued to receive salaries. In February 2010, in response to Audit's enquiry, the HKCO said that the Council was fully aware of the arrangement. In Audit's view, such information should have been properly recorded to demonstrate that the Council had made an informed decision. The audit recommendation on improving documentation of the Council's approval (see para. 3.25(e)) also applies in this case.

Audit recommendation

4.14 **Audit has recommended that the HKCO should ensure that outgoing staff are gainfully employed up to the end of their contract periods and, where there are practical difficulties to do so, explore ways to minimise any nugatory expenditure.**

Response from the HKCO

4.15 The HKCO welcomes the audit recommendation. The **Council Chairman, HKCO** has said that:

- (a) a 360 degree assessment system and a state-of-the-art annual review mechanism have been introduced to ensure that the HKCO's musicians perform to world-class artistic standards and adhere to good discipline. This is likely to be the most scientific and systematic assessment of performance in Chinese orchestral management; and
- (b) the HKCO will look into the audit recommendation and explore ways to minimise any nugatory expenditure, balancing against the need to be sensitive to the effect any dismissal/termination of contract may have on individuals, and the morale of the company as a whole.

Duty visits outside Hong Kong

Air passage

4.16 In 2003, the HKCO stipulated in the Human Resources Manual that for duty visits outside Hong Kong, **Economy class** air passage should be provided for Council members (including Chairman and Vice-chairmen) and staff (up to the AD and the ED). The Manual also provided that the air passage for the AD could be upgraded to Business class if he had to perform conductor duty.

4.17 **April 2009 amendment.** In March 2009, the Human Resources Committee approved the administration department's paper which set out the proposed amendment to the Human Resources Manual such that **Business class** air passage should be provided for Council representatives, the AD and the ED on duty visits if the flight duration was 6 hours or more. The same paper was presented to the Council in April 2009. After discussion, the Council approved the proposed amendment (as set out in the paper) subject to replacing the wording of "if the flight duration was 6 hours or more" by "to countries outside Asia".

4.18 In November 2009, the HAB provided the HKCO with an information note on the Government's and other subvented bodies' air passage guidelines for duty visits outside Hong Kong (see Table 11).

Table 11

Government's and other subvented bodies' air passage guidelines

| Organisation | Staff | Class of air passage |
|---------------------|--|--|
| HAB | Directorate officers at D4 to D8 or equivalent | Business class , but officers are encouraged to travel on Economy class for short flights where the flying time is less than 4 hours. |
| | Directorate officers at D3 and below or equivalent | Economy class , may be upgraded to Business class if flying time exceeds 9 hours but have to seek approval on a case by case basis. |
| Subvented Body A | Staff including Chief Executive (equivalent to D2) | Economy class |
| Subvented Body B | Staff at pay scale equivalent to D4 or above | Business class , but staff are encouraged to travel on Economy class for short flights where the flying time is less than 4 hours. |
| | Staff at pay scale equivalent to below D4 | Economy class , may be upgraded to Business class under special circumstances but have to seek approval on a case by case basis. |

Source: *HAB records*

4.19 **December 2009 amendment.** In December 2009, as directed by the Council, the Human Resources Committee discussed the above HAB information note. The following are extracts of the minutes of the meeting:

- (a) **HAB information note.** Some committee members considered that the guidelines mentioned in the HAB information note were too stringent. It was difficult to compare the HKCO with the Government and other arts groups. For the HKCO's performance tours, the tour leaders often had to work or make important decisions upon arrival. Business class air passage for them was necessary and consistent with the international standing of the HKCO. The Human Resources Manual should differentiate between performance tours and other duty visits; and

- (b) *Amendment to Human Resources Manual.* The committee considered that the air passage provision for Council representatives, the AD and the ED as stated in the Manual (see para. 4.17) could not accurately reflect the HKCO's policy. The Manual should be amended such that they were to be provided with Business class air passage for overseas performance tours.

At a meeting of January 2010, the Council endorsed the above amendment. The Council Chairman stated that the HKCO would keep the matter under regular review, with reference to the HAB information note and other orchestral groups' practices.

Lodging provision

4.20 According to the Human Resources Manual of 2003, the lodging provision for duty visits outside Hong Kong was as follows:

Table 12
Lodging provision for duty visits
(before April 2009)

| Participant | Accommodation |
|---|----------------------|
| Council Chairman / Vice-chairmen | Single room or suite |
| Council members, AD (Note), ED and assistant conductor | Single room |
| All other staff | Double room |

Source: HKCO records

Note: The AD would be entitled to a suite if he had to perform conductor duty.

In April 2009, the HKCO amended the Human Resources Manual such that Council representatives, the AD and the ED would be entitled to **single room or suite** (depending on the hosting organisation's arrangement) and section leaders, managers or above would be entitled to **single room** on duty visits outside Hong Kong. In December 2009, the HKCO further amended the Human Resources Manual such that Council representatives, the AD and the ED would be entitled to suite for overseas performance tours.

Audit observations and recommendations

Air passage

4.21 *Non-compliance cases.* According to the Human Resources Manual (before the April 2009 amendment), **Economy class** air passage should be provided for Council members and all staff on duty visits outside Hong Kong (see para. 4.16). Based on a sample checking of the government-subsidised duty visits in 2007 and 2008, Audit found that there were cases of non-compliance, as follows:

Table 13
Air passage for duty visits

| Duty visit | Date | Class of air passage | Cost |
|--|----------------|---|-------------|
| Performance tour in New Zealand | September 2007 | Business class for the ED | \$25,417 |
| Performance tour in Beijing | January 2008 | Business class for the ED | \$7,687 |
| Performance tour in the United Kingdom | March 2008 | Business class for a Council member and the ED | \$39,012 |

Source: HKCO records

Remarks: The cost of the performance tour in New Zealand was met by the Government. As for the performance tours in Beijing and the United Kingdom, government funding accounted for 40% and 58% respectively of the expenditure.

4.22 *Guideline review.* After the two amendments in 2009, some of the HKCO's air passage guidelines for duty visits outside Hong Kong are more favourable than those adopted by the Government and other subvented bodies as follows:

- (a) **AD and ED.** They are entitled to Business class air passage for overseas performance tours (see para. 4.19(b)). However, staff of comparable rank to the AD and the ED in the Government and other subvented bodies listed in Table 11 in paragraph 4.18 are only entitled to Economy class air passage; and

- (b) *Council representatives.* They are entitled to Business class air passage in a similar way as the ED (see para. 4.19(b)). However, Council members of Subvented Body A (including its Chairman) are only entitled to Economy class air passage.

4.23 While there is no specific stipulation that the HKCO has to follow the Government's and other subvented bodies' air passage guidelines, the HKCO is required under the FSA to ensure value for money in using the subvention (see para. 1.6(b)). After the April 2009 amendment, the Human Resources Manual has provided for Business class air passage for Council representatives, the AD and the ED on duty visits to countries outside Asia. In Audit's view, such an arrangement already caters for their operational need as tour leaders after long haul flights (see para. 4.19(a)). The HKCO needs to review the appropriateness of categorically providing Business class air passage for Council representatives, the AD and the ED for all overseas performance tours (see para. 4.19(b)).

Lodging provision

4.24 *Non-compliance cases.* According to the Human Resources Manual (before April 2009), the ED should be accommodated in a **single room** on duty visits outside Hong Kong while staff members (below the level of ED and assistant conductor) should be accommodated in **double rooms** (see Table 12 in para. 4.20). Based on a sample checking of the government-subsidised duty visits in 2007 and 2008, Audit found that there were cases of non-compliance, as follows:

Table 14

Lodging provision for duty visits

| Duty visit | Date | Accommodation | Cost |
|--|----------------|--|--------------------|
| Performance tour in New Zealand | September 2007 | Suite for the ED and single room for 5 staff below the level of ED and assistant conductor (i.e. a manager and 4 artistic staff at or above section leader level) | \$28,900 (Note) |
| Performance tour in the United Kingdom | March 2008 | Single room for 5 staff below the level of ED and assistant conductor (i.e. the Head of Programme and Touring, the R&D officer and 3 artistic staff at or above section leader level) | \$49,900 |

Source: HKCO records

Note: The cost information was obtained from the Hong Kong Economic and Trade Office (Sydney), the hosting organisation. The accommodation arrangements were made upon the HKCO's advice.

Audit recommendations

4.25 **Audit has recommended that the HKCO should:**

- (a) **ensure that the laid-down guidelines on air passage and lodging provision for duty visits outside Hong Kong are strictly complied with; and**
- (b) **review the appropriateness of providing Business class air passage for Council representatives, the AD and the ED for all overseas performance tours, and where necessary, consult the HAB.**

Response from the HKCO

4.26 The HKCO welcomes the audit recommendations. The **Council Chairman, HKCO** has said that:

- (a) the HKCO will carry out the recommended review with reference to HAB's information and other orchestral groups' practices;
- (b) in December 2009, the HKCO's Human Resources Committee ratified the HKCO's guidelines to tie in with its existing policy regarding air passage and lodging provision for performance tours as opposed to duty visits;
- (c) duty visits refer to administration meetings and cultural exchange activities, and guidelines for air passage and lodging provision were laid down. For overseas performance tours, the HKCO's Head of Programme and Touring, based on industry practice, will discuss with the organiser or sponsor about the air passage and lodging provision, and will make arrangements based on their advice; and
- (d) in the cases mentioned in Tables 13 and 14, the HKCO respected the organisers' consideration based on their budget and the desire for the HKCO to be positioned consistently with its international standing.

Management of research and development officer

4.27 In 2003, with a view to raising Chinese music to a higher level, the HKCO considered it necessary to have musical instruments of the highest standard and formulated the following instrument R&D objectives:

- (a) to compile and update records on the manufacturing of folk instruments in various parts of the world;
- (b) to explore the impact of the "e-age" on the making of traditional folk instruments and their improvements; and
- (c) to promote the use of improved and newly invented folk instruments within the HKCO.

4.28 In September 2003, the HKCO appointed a principal musician (Note 15) as its R&D officer, working directly under the AD. The R&D officer was appointed on two-year contract terms. Since September 2003, his contract has been renewed three times (i.e. in September of 2005, 2007 and 2009). In 2008-09, the HKCO's recurrent expenditure on R&D work amounted to about \$800,000 (Note 16).

Note 15: *As informed by the HKCO in February 2010, the principal musician has achieved a sound record and won awards in research work of Chinese musical instruments.*

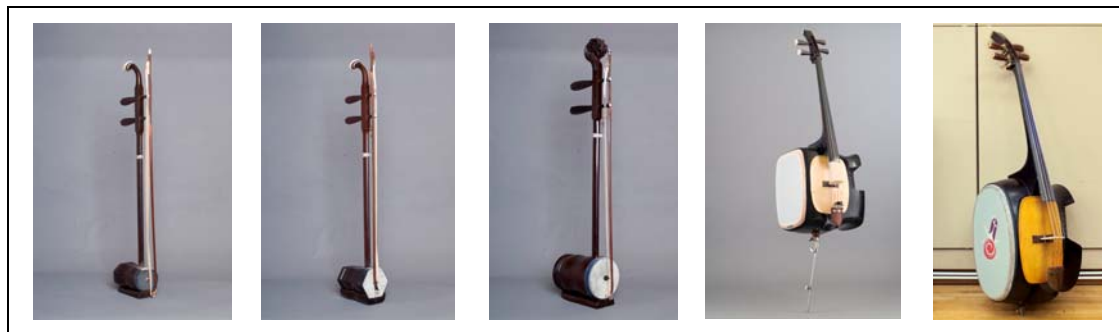
Note 16: *The recurrent expenditure comprised the R&D officer's remuneration, the rental of an R&D workshop (see para. 4.32(c)) and other direct expenses.*

Research work

4.29 The duties of the R&D officer, as set out in his contract, included the reporting of progress of research work at six-monthly intervals. As regards the R&D officer's research areas, the first two contracts (covering the period September 2003 to August 2007) named bass bowed-string instrument (i.e. Ge Hu) as one of the priorities. In the progress report of October 2005, the R&D officer informed the HKCO that he would commence research work on a series of "Eco-Hu Qin" (comprising Eco-Gao Hu, Er Hu and Zhong Hu in addition to Eco-Ge Hu as stated in his contract — see Photographs 3 to 7).

Photographs 3 to 7

Eco-Hu Qin series



3. Eco-Gao Hu

4. Eco-Er Hu

5. Eco-Zhong Hu

6. Eco-Ge Hu

7. Eco-bass Ge Hu

Source: Photographs provided by HKCO

Remarks: For an Eco-Hu Qin, a recyclable latex membrane is used to mount the soundbox instead of python skin used in a traditional Hu Qin. The import of python is regulated under the Protection of Endangered Species of Animals and Plants Ordinance (Cap. 586).

4.30 In March 2007, the administration department sought the Human Resources Committee's approval for the renewal of the R&D officer's employment contract for a third term. The committee was informed that:

- (a) the R&D work on Eco-Ge Hu was at an advanced stage and the proposed renewal of contract was to enable the R&D officer to complete the outstanding work. According to the then prevailing contract, the intellectual property right of Eco-Ge Hu (a contract specified research item) belonged to the HKCO; and

- (b) the R&D officer also spent his own time and money on developing Eco-Gao Hu, Er Hu and Zhong Hu. He proposed equal sharing of profit with the HKCO for the commercialisation of these products (Note 17).

After discussion, the committee approved the renewal of the R&D officer's employment contract, and directed the administration department to reimburse him the research cost (including equipment and material cost) so that the HKCO would have the intellectual property right of the entire Eco-Hu Qin series.

4.31 In April 2007, the R&D officer informed the Council that:

- (a) he had not kept supporting receipts for all his expenses on his research work of Eco-Gao Hu, Er Hu and Zhong Hu;
- (b) for those expenses without supporting receipts, he could only provide the market price of his 36 research products (i.e. 12 pieces of Eco-Gao Hu, 15 pieces of Eco-Er Hu and 9 pieces of Eco-Zhong Hu) as a reference; and
- (c) he had all along carried out his research work at home. The intermediate research products took up a lot of space and he needed a workshop of about 400 square feet to continue his research work.

4.32 After discussions by the Human Resources Committee, the Finance and Audit Committee and the Council, the HKCO:

- (a) agreed to pay the R&D officer \$350,000 for the 36 research products, the related intellectual property right, equipment and materials, after checking that the market price of professional Hu Qin made of the same kind of wood was double that asked by him;
- (b) in November 2007, incorporated (by way of a supplementary agreement) a term in his employment contract specifying that the intellectual property right of all his research products during his employment period belonged to the HKCO; and
- (c) in September 2008, rented a commercial unit (at a monthly rental of \$11,000) for the R&D officer as his workshop after receiving sponsorship from a private foundation.

Note 17: *The then prevailing contract terms only provided for an incentive payment of less than 10% on the sale proceeds of any research product.*

Audit observations and recommendations

4.33 *Control over research expenses.* In October 2005, the R&D officer informed the HKCO that he would commence research work on Eco-Gao Hu, Er Hu and Zhong Hu which were not specifically named as research items in the employment contract. However, the HKCO had not promptly sorted out with him the intellectual property right issue and the cost implications. It was not until March 2007, when the HKCO considered the renewal of the R&D officer's employment contract, that the matter was brought up for discussion. By this time, research cost had already been incurred without any prior approval or budgetary control. In the event, the HKCO paid \$350,000 for the 36 research products, the related intellectual property right, equipment and materials. Of the \$350,000 payment, over 70% was related to expenditure claims without supporting receipts (see para. 4.31(a)). From the financial control point of view, there was room for improvement.

4.34 *Monitoring of work progress.* The conditioned working hours of the R&D officer changed from 44 hours a week (same as other administration staff) in the first contract to 28 hours a week (same as other artistic staff) in the second contract and finally to flexible working hours in the third and fourth contracts. Upon Audit's enquiry in January 2010, the ED said that the change was to reflect the nature of research work which could not be meaningfully controlled by fixed working hours. In Audit's view, with the diminished control over the R&D officer's input working hours, the management of his research output became more important. **However, milestone dates were not set in the four employment contracts (September 2003 to August 2011) for measuring progress.** Audit also examined the annual performance appraisal reports of the R&D officer for the past six years. There was again no milestone date set in these reports except the one dated April 2008 (i.e. estimated completion dates of Eco-Ge Hu and Eco-Hu Qin series were stated). As such, there was no assurance that the progress of R&D work in the past six years (in respect of the three types of musical instruments named in the contracts as priority research areas) was up to expectation (see Table 15).

Table 15
Progress of R&D work
(December 2009)

| Musical instrument | Priority research area stated in R&D officer's contracts | Reporting of progress |
|--|---|---|
| Yang Qin (hammered-string instrument) | <p><u>1st contract (Sept. 2003 — Aug. 2005):</u></p> <ul style="list-style-type: none"> • To resolve the damper problems of Yang Qin <p><u>2nd to 4th contracts (Sept. 2005 — Aug. 2011):</u></p> <ul style="list-style-type: none"> • To search for the finest Yang Qin products among manufacturers in the Mainland, and make recommendations to the HKCO | <ul style="list-style-type: none"> • It was only mentioned in a progress report of 2005 that some repair work of Yang Qin was done for the orchestra. • No new product had been developed. |
| Hu Qin (bowed-string instrument) | <p><u>1st to 2nd contracts (Sept. 2003 — Aug. 2007):</u></p> <ul style="list-style-type: none"> • To improve bass bowed-string instruments (Ge Hu) <p><u>3rd to 4th contracts (Sept. 2007 — Aug. 2011):</u></p> <ul style="list-style-type: none"> • To improve the Eco-Hu Qin series (Gao Hu, Er Hu, Zhong Hu, Ge Hu and bass Ge Hu) | <ul style="list-style-type: none"> • There was regular reporting of research progress from 2005 to 2009. • Eco-Ge Hu and bass Ge Hu were developed in September 2008 and March 2009 respectively. |
| Ruan (plucked-string instrument) | <p><u>2nd to 4th contracts (Sept. 2005 — Aug. 2011):</u></p> <ul style="list-style-type: none"> • To refine the quality of Ruan instruments | <ul style="list-style-type: none"> • Research progress was mentioned in two reports of 2005 and one report in 2007. • No new product had been developed. |

Source: HKCO records

Audit recommendations

- 4.35 **Audit has recommended that the HKCO should:**
- (a) **for a new R&D initiative outside the scope of the R&D officer's employment contract, agree with him appropriate contract terms for managing key issues such as intellectual property right and research cost before commencing the work; and**
 - (b) **set milestone dates in the R&D officer's employment contract for measuring the progress of his work.**

Response from the HKCO

4.36 The HKCO welcomes the audit recommendations. The **Council Chairman, HKCO** has said that:

- (a) the HKCO originally planned to conduct research work on Ge Hu and bass Ge Hu, which were identified as the priority pieces of the Hu Qin series. Subsequently, the R&D officer took the initiative to develop Gao Hu, Er Hu and Zhong Hu;
- (b) since the R&D officer was not certain if the development work of Gao Hu, Er Hu and Zhong Hu would be successful, he had paid for all the expenses incurred. The HKCO was impressed with the results of the R&D initiative, and upon professional legal advice, the HKCO entered into an agreement with the R&D officer to recover the intellectual property right of the products, and to reimburse the R&D officer of all the expenses incurred for producing the products; and
- (c) the HKCO will review and introduce better project and budget management regarding its R&D undertaking. The HKCO will also closely monitor the progress of R&D projects to ensure that they are going according to plan.

PART 5: OTHER ADMINISTRATIVE ISSUES

5.1 This PART examines the following administrative issues of the HKCO:

- (a) procurement and tendering procedures (paras. 5.2 to 5.10);
- (b) fixed asset management (paras. 5.11 to 5.19);
- (c) insurance cover for Council members (paras. 5.20 to 5.24); and
- (d) entertainment expenses (paras. 5.25 to 5.28).

Procurement and tendering procedures

5.2 In 2008-09, the HKCO spent about \$10 million on procuring goods (such as musical instruments) and services (such as copying of music scores). According to its Accounting Manual, the HKCO's procurement procedures are as follows:

- (a) ***Tendering.*** For purchases exceeding \$250,000, the administration staff concerned have to make the purchases through tendering;
- (b) ***Quotations from nominated suppliers.*** For purchases not exceeding \$250,000 but the annual consumption of the goods/services exceeds \$100,000 in cumulative value, the administration staff have to obtain quotations from nominated suppliers. The HKCO selects nominated suppliers by an annual evaluation exercise. The number of quotations to be obtained from nominated suppliers are: 3 written ones for single purchase over \$30,000 up to \$250,000, a written one for single purchase over \$10,000 up to \$30,000 and a verbal one for single purchase of \$10,000 and below;
- (c) ***Quotations from non-nominated suppliers.*** For purchases other than those specified in (a) and (b) above, the number of quotations to be obtained from non-nominated suppliers are: 3 written ones for single purchase over \$20,000 up to \$250,000, 2 written ones for single purchase over \$5,000 up to \$20,000, and a verbal one for single purchase of \$5,000 and below; and
- (d) ***Approving authority for purchases.*** The Council's approval is required for any purchase exceeding \$250,000. The Council has delegated the approving authority to the Finance and Audit Committee for purchases over \$100,000 up to \$250,000, the AD or the ED for purchases over \$20,000 up to \$100,000, and designated administration staff for purchases of \$20,000 and below.

Audit observations and recommendations

Annual selection of nominated suppliers

5.3 In an evaluation exercise for selecting nominated suppliers, the HKCO invites suppliers by goods/services types to submit quotations. Their quotations are evaluated in terms of price and service quality. A supplier with satisfactory evaluation results is selected as a nominated supplier. Audit reviewed the evaluation exercise conducted in mid-2009 for the supply of 12 types of goods/services for the 33rd orchestral season (see para. 5.6(a)). Audit found that for 7 types of goods/services (e.g. stationery and courier service), the HKCO invited a small number (i.e. 3 or 4) of suppliers to provide quotations. In the event, only one or two nominated suppliers were selected for each of these 7 types of goods/services.

5.4 The 7 types of goods/services for which the HKCO had only invited 3 or 4 suppliers to provide quotations appear to be common in the market and there should be more choices available. The HKCO needs to invite more suppliers to participate in its annual evaluation exercise for selecting the best available nominated suppliers.

5.5 According to the Accounting Manual, for single purchase over \$30,000 from nominated suppliers, 3 written quotations have to be obtained (see para. 5.2(b)). To meet this requirement, for goods/services types with less than 3 selected nominated suppliers, the HKCO has to obtain written quotations from some other suppliers. The HKCO needs to increase the number of nominated suppliers.

Tendering exercises

5.6 While the Accounting Manual has set out the financial limit over which a purchase has to be made through tendering, there are no laid-down tendering procedures. In 2009, the HKCO conducted three tendering exercises for procuring three types of services (i.e. video-shooting and audio-recording, copying of music scores, and transport of musical equipment) respectively. For the tendering exercise for video-shooting and audio-recording services, Audit found that:

- (a) the services were required for the 33rd orchestral season beginning in September 2009. However, the tendering exercise was conducted in August 2009. The invitation to tender was advertised on 22 August 2009 in one newspaper (instead of two as in 2008). The prospective suppliers were only allowed one week (i.e. up to 28 August 2009) to submit tenders (instead of two weeks as in 2008); and

- (b) in the event, only one tender was received from the then existing supplier who was selected without competition.

5.7 For the proper conduct of tendering exercises in future, the HKCO needs to set out clearly the tendering procedures for the administration staff to follow. These should include the requirements of adequate planning to allow sufficient time for suppliers to submit their tenders, and advertising of invitation of tenders in the specified number of newspapers.

Approval for purchases

5.8 Audit sample checked the approving authority for 18 purchases of goods/services in 2008-09 and 2009-10 (up to September 2009). Audit found that 3 of the purchases (valuing between \$100,000 and \$250,000 each) were approved by the ED. According to the Accounting Manual, these purchases should have been approved by the Finance and Audit Committee (see para. 5.2(d)). The Council/committee was only informed of the 3 purchases after payments had been made. The HKCO needs to remind administration staff to strictly follow the laid-down procurement procedures.

Audit recommendations

- 5.9 **Audit has recommended that the HKCO should:**
- (a) **invite more suppliers to participate in its annual evaluation exercise for selecting nominated suppliers;**
 - (b) **set out clearly the tendering procedures for the administration staff to follow; and**
 - (c) **remind administration staff to strictly follow the laid-down procurement procedures.**

Response from the HKCO

5.10 The HKCO welcomes the audit recommendations. The **Council Chairman, HKCO** has said that the HKCO will keep the procurement procedures under constant review.

Fixed asset management

5.11 According to the Accounting Manual, all purchased items to be used in the normal course of business with cost not less than \$5,000 each and having a useful life greater than one year should be treated as fixed assets. The administration staff are required to:

- (a) maintain a fixed asset register to record the addition, movement and disposal of fixed assets;
- (b) attach a fixed asset tag to individual fixed asset for control purposes; and
- (c) in respect of an asset to be disposed of, complete a fixed asset disposal form for the ED's final approval.

5.12 The HKCO's fixed assets mainly include furniture and equipment, and musical instruments. As a case study, Audit reviewed the HKCO's fixed asset management of a batch of drums purchased in 2003 at a cost of \$976,000 for the first Drum Festival.

5.13 *First Drum Festival.* In 2003, the HKCO organised the first Drum Festival. With Government's sponsorship, the HKCO presented the opening drum rally of the Festival as part of the Economic Relaunch Programme (Note 18). For the performance of the drum rally held in July 2003, the HKCO purchased 1,975 drums of various sizes (see Photographs 8 and 9 for two examples). The largest one (measuring 3.5 metres (m) in diameter) cost \$198,000 and the smallest ones (measuring 23 centimetres (cm)) cost \$200 each.

Note 18: *The Economic Relaunch Programme was organised by the Government to re-launch Hong Kong's economy after the Severe Acute Respiratory Syndrome outbreak in 2003.*

Photographs 8 and 9

Drums purchased for the first Drum Festival (2003)



45-cm Bian Gu



23-cm Tang Gu

Source: Photographs taken by Audit

5.14 **Storage of drums.** The HKCO did not have enough storage space for the 1,975 drums. In October 2003, the Council requested the LCSD (through the department's representative at Council meetings) to assist in finding suitable storage space in government premises, but to no avail. In the event, the HKCO rented storage space (mainly containers) in Yuen Long for storing the drums. From mid-2003 to end of 2009, the HKCO spent \$617,000 on storage rentals. The rental decreased from about \$14,300 a month in 2003 to about \$4,500 a month in 2009, as 1,776 (90%) of the 1,975 drums had been disposed of over the years (see Appendix G for details).

Audit observations and recommendations

5.15 **No record in fixed asset register.** According to the Accounting Manual, items purchased with cost not less than \$5,000 each and with a useful life greater than one year should be treated as fixed assets. However, the acquisition of the 1,975 drums and their subsequent disposals were not recorded in the fixed asset register, although 3 of them cost over \$5,000 each (i.e. the largest one at \$198,000 and the two second largest ones at \$7,500 each). The remaining 1,972 drums, though costing less than \$5,000 each, had an aggregate value of \$763,000.

5.16 *Discrepancies in drum stock.* Over the past 6.5 years, the HKCO only conducted stock-taking of the drums once (in November 2009). According to the stock-take, there were 154 drums as at 30 November 2009. In the absence of an up-to-date ledger balance of the drums in the fixed asset register, Audit could only derive one, based on the opening position (i.e. 1,975 drums) and the disposals as recorded by the administration department, for checking against the stock-take balance. The checking revealed that there were discrepancies in 10 of the 13 types of drums (see Appendix H for details). Audit could not ascertain whether the discrepancies were due to physical loss of the drums or incomplete/inaccurate disposal records. This was because the write-off of the 623 damaged drums was not supported by fixed asset disposal forms (see para. 5.11(c)).

5.17 *No disposal plan for excessive drums.* According to the HKCO administration department, the number of drums used for the second and subsequent Drum Festivals varied from tens to a few hundreds. The 1,975 drums purchased for the first Drum Festival were excessive to the HKCO's normal requirement. However, there was no record showing that the HKCO had assessed the number of surplus drums in 2003 and formulated a disposal plan. In the event, storage cost totalling \$617,000 was incurred and 623 (32% of the 1,975) drums were damaged by moulds and wood-boring insects before they could be properly disposed of by sale or donation (see Appendix G).

Audit recommendations

5.18 **Audit has recommended that the HKCO should:**

- (a) **remind the administration staff to strictly follow the laid-down fixed asset management guidelines in handling musical instruments;**
- (b) **consider amending the guidelines to include large batch of musical instruments with significant aggregate value as fixed assets for proper management control;**
- (c) **require the administration staff to conduct regular stock-taking of valuable assets; and**
- (d) **for any assets procured specifically for a major event (such as the drums in this case), promptly assess their potential for future use and formulate a plan for the expeditious disposal of any surplus stock to minimise storage cost and wastage.**

Response from the HKCO

5.19 The HKCO welcomes the audit recommendations. The **Council Chairman, HKCO** has said that:

- (a) the drums were purchased for the opening rally of the first Drum Festival which was part of the Economic Relaunch Programme in 2003 and was considered to be a one-off project;
- (b) the HKCO had enquired about storage space for the drums with the LCSD to minimise the storage cost but was told that such provision was not available (see para. 5.14);
- (c) since then, the drums have been put to productive use in various ways, including concerts. Furthermore, some drums have been sold or donated (see Appendix G);
- (d) the rental cost had in fact decreased from \$14,300 a month to \$4,500, reflecting a reduction in the number of drums. The \$600,000 plus is the accumulated rental costs of the past seven years (see para. 5.14); and
- (e) the HKCO will consider registering the drums as fixed assets and will continue to find ways to put them to productive use.

Insurance cover for Council members

5.20 According to the Human Resources Manual, the HKCO procures insurance policies for the protection of its Council members and employees as shown in Table 16.

Table 16
Insurance policies

| Insurance type | The insured | Coverage |
|------------------------------------|-------------------------------------|---|
| (a) Medical | (i) Council members | Surgical and hospital expenses arising from attending the HKCO activities |
| | (ii) Employees | Out-patient, surgical and hospital benefits |
| | (iii) Employees' dependants | Out-patient, surgical and hospital benefits |
| (b) Employee compensation | Employees | Statutory benefits |
| (c) Accident | Council members | HK\$1 million, arising from attending the HKCO activities |
| (d) Director and officer liability | HKCO, Council members and employees | HK\$10 million |

Source: HKCO records

Audit observations and recommendation

5.21 Audit found that:

- (a) the medical insurance for Council members (item (a)(i) of Table 16) was provided pursuant to the Human Resources Committee's decision of September 2003 (Note 19). The committee's view was that the HKCO would otherwise have to bear the hospital expenses of Council members in the event of any accident occurring **during their attendance at the HKCO activities**; and

Note 19: *The HKCO informed Audit in March 2010 that the decision was made after a Council member suffered from a heat stroke while attending an outdoor HKCO activity and was sent to hospital.*

- (b) the medical insurance procured for Council members, however, covered their surgical and hospital expenses **irrespective of whether they arose from attending the HKCO activities or not**. The premium for such insurance was \$10,700 in 2009-10. According to the administration department, there is no customised medical insurance policy in the market that only covers Council members' surgical and hospital expenses arising from attending the HKCO activities.

5.22 In Audit's view, the HKCO needs to review the appropriateness of the existing medical insurance procured for its Council members because it is in excess of that intended by the Human Resources Committee (see para. 5.21). Moreover, the excessive provision of medical insurance benefits may not be consistent with the HKCO's Memorandum of Association which provides that no benefits in money or money's worth shall be given by the HKCO to its Council members.

Audit recommendation

5.23 **Audit has recommended that the HKCO should review the appropriateness of the existing medical insurance procured for its Council members.**

Response from the HKCO

5.24 The HKCO welcomes the audit recommendation. The **Council Chairman, HKCO** has said that:

- (a) Council representatives are often invited to perform their duties at various HKCO events. The HKCO believes that taking out insurance coverage for members is a necessary measure as part of proper risk management but will check if a precise insurance plan is available in the market; and
- (b) the HKCO's intention and principle have always been that Council members will not receive any benefit outside the context of their duties with the HKCO.

Entertainment expenses

5.25 In 2008-09, the HKCO incurred \$170,000 on entertainment expenses. Although the amounts involved were not large, entertainment expenses could be seen as giving some private benefits to individuals. According to the Accounting Manual, the HKCO's guidelines for entertainment expenses are as follows:

- (a) prior verbal approval must be obtained from the ED for organising functions to entertain guests as a courtesy of their support to the HKCO. The spending limits are \$300 per head for lunch and \$400 per head for dinner; and
- (b) claims for reimbursement of entertainment expenses must be approved by the ED. Where the ED also attends an entertainment function, the relevant reimbursement claim should be approved by the Council Chairman or a Vice-chairman. Claims must be accompanied by supporting documents showing the attendees and the purpose of the function.

Audit observations and recommendation

5.26 Audit sample checked entertainment expenses (totalling \$25,000) for 19 functions held in 2009-10. Audit found the following cases of non-compliance with the laid-down guidelines:

- (a) there was no record showing that the ED's prior approval was obtained for incurring entertainment expenses for 4 of the 19 functions; and
- (b) reimbursements of expenses for 14 of the 19 functions were without proper authorisation, i.e. 12 reimbursements relating to functions attended by the ED were without the Council Chairman or a Vice-chairman's approval and the remaining 2 were without the ED's approval.

Audit recommendation

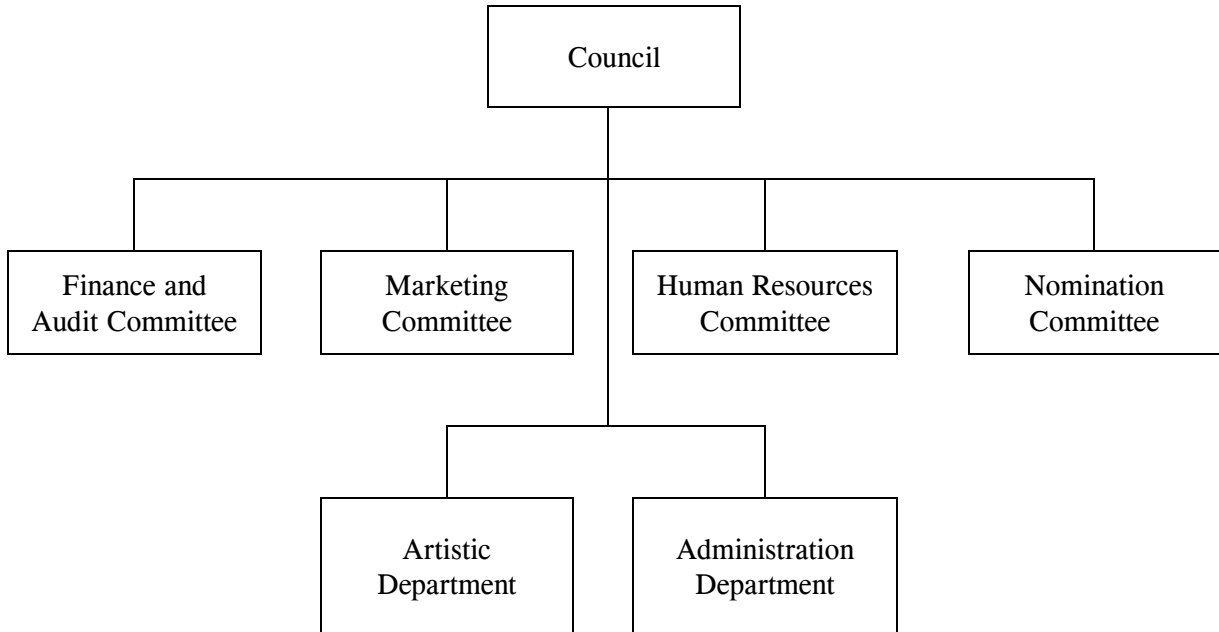
5.27 **Audit has recommended that the HKCO should ensure that the laid-down guidelines on authorisation of entertainment expenses are complied with.**

Response from the HKCO

5.28 The HKCO welcomes the audit recommendation. The **Council Chairman, HKCO** has said that:

- (a) prior approval for the above-mentioned entertainment expenses was in fact sought and obtained;
- (b) the Chairman was informed and aware of the ED's attendance at these functions on behalf of the HKCO; and
- (c) the HKCO will consider introducing better documentation for prior verbal approval of entertainment expenses in the future.

Hong Kong Chinese Orchestra Limited
Organisation chart
(1 January 2010)



Source: HKCO records

Comparison of the HKCO's 2001-02 and 2008-09 positions

| Financial year | 2001-02 | 2008-09 |
|--|---|----------------|
| Government subvention | \$54.7 million | \$53.1 million |
| Government subvention as a percentage of total income | 92% | 82% |
| Number of regular concerts (performances) | 17 (33) | 31 (50) |
| Number of outreach community activities | 57 | 75 |
| New initiatives (in addition to staging concerts as its core activities) after incorporation in 2001 | <p><i>Education and corporate social responsibility</i></p> <ul style="list-style-type: none"> ➤ Special education projects and workshops for students and the youth ➤ “Chinese Music Alive” Scheme and “Music for Love” Scheme for vulnerable groups ➤ Organisation of children and youth orchestras and instrumental classes ➤ Nurturing young professional talents in Chinese music in collaboration with the Hong Kong Academy for Performing Arts and the Hong Kong Arts Development Council and setting up the HKCO Orchestral Academy ➤ Special projects to nurture young Hong Kong composers ➤ Publication of music appreciation and audio and visual materials <p><i>Research and development</i></p> <ul style="list-style-type: none"> ➤ Commissioning new works by Hong Kong and overseas composers ➤ Research and development of Chinese musical instruments — the Eco-Hu Qin series (see para. 4.29) <p><i>International cultural exchange platform</i></p> <ul style="list-style-type: none"> ➤ Performances at world music stage to promote the cosmopolitan image of Hong Kong as Asia’s world city ➤ Building a platform of exchange by organising the International Festival for Chinese Orchestral Music, the International Competition for Chinese Orchestral Composition and Conducting ➤ Promoting Chinese music to youngsters and global audience by setting up the HKCO video channel and through the Internet | |

Source: HKCO response to audit report

Appendix C
(paras. 3.6 and 3.7(d)(ii) refer)

**Reported performance results for regular concerts
(2008-09)**

| Concert | Venue | Number of performances | Maximum audience capacity (a) | Paid audience (persons) (b) | Number of complimentary tickets (c) | Attendance rate (d) = (b)/(a) × 100% | Ticket proceeds ($\text{\$}$) |
|---|--------------------------|------------------------|----------------------------------|--------------------------------|--|---|------------------------------------|
| <i>Core programmes (Core business):</i> | | | | | | | |
| Concert 1* | HKCO | 1 | 50 | 20 | — | 40% | } 315,799 |
| Concert 2 | HKCC | 2 | 2,992 | 2,505 | 91 | 84% | |
| Concert 3* | HKCO | 1 | 50 | 26 | — | 52% | } 217,475 |
| Concert 4* | HKCO | 1 | 50 | 33 | — | 66% | |
| Concert 5 | HKCH | 2 | 2,412 | 1,749 | 100 | 73% | |
| Concert 6* | HKCO | 1 | 50 | 18 | — | 36% | } 102,655 |
| Concert 7 | HKCH | 1 | 1,206 | 855 | 50 | 71% | |
| Concert 8 | HKCC (Studio Theatre) | 2 | 582 | 576 | 26 | 99% | 63,744 |
| Concert 9 | | 3 | 873 | 854 | 39 | 98% | 113,349 |
| Concert 10 | HKCC | 5 | 7,480 | 6,564 | 300 | 88% | 983,054 |
| Concert 11* | HKCO | 1 | 50 | 49 | — | 98% | } 517,048 |
| Concert 12 | HKCC | 3 | 4,488 | 4,255 | 180 | 95% | |
| Concert 13 | HKCH | 2 | 2,412 | 1,581 | 100 | 66% | 213,483 |
| Concert 14 | HKCC | 2 | 2,992 | 1,984 | 120 | 66% | 369,229 |
| Concert 15 | HKCC | 1 | 1,496 | 1,700 | 60 | 114% | 1,266,900 |
| Concert 16 | STTH | 1 | 1,190 | 556 | — | 47% | } 277,779 |
| Concert 17 | HKCC | 1 | 1,496 | 1,110 | 60 | 74% | |
| Concert 18 | HKCC | 1 | 1,496 | 1,261 | 60 | 84% | |
| Concerts 19-21 | HKCC (Studio Theatre) | 3 | 873 | 623 | 39 | 71% | 85,981 |
| Concert 22 | HKCC | 2 | 2,992 | 2,549 | 120 | 85% | 364,690 |
| Concert 23 | HKCH | 1 | 120 | 113 | — | 94% | } 84,058 |
| Concert 24 | HKCH | 1 | 1,206 | 551 | 50 | 46% | |

Appendix C
(Cont'd)
(paras. 3.6 and 3.7(d)(ii) refer)

| Concert | Venue | Number of performances | Maximum audience capacity (a) | Paid audience (persons) (b) | Number of complimentary tickets (c) | Attendance rate (d) = (b)/(a) × 100% | Ticket proceeds (\$) |
|-------------------------------|-------|------------------------|----------------------------------|--------------------------------|--|---|-------------------------|
| Concert 25 | HKCC | 2 | 2,992 | 1,944 | 120 | 65% | 259,939 |
| Concert 26 | HKCH | 1 | 1,206 | 1,023 | 50 | 85% | 164,195 |
| Concert 27 | STTH | 3 | 720 | 677 | 36 | 94% | 63,179 |
| Concert 28 | HKCH | 2 | 2,412 | 2,500 | 100 | 104% | 345,311 |
| Overall | | 46 | 43,886 | 35,676 | 1,701 | 81% | 5,807,868 |
| Core programmes (VPS): | | | | | | | |
| Concert 29 | HKCC | 1 | 1,496 | 1,065 | 60 | 71% | } 329,351 |
| Concert 30 | HKCC | 1 | 1,496 | 1,633 | 60 | 109% | |
| Concert 31 | HKCC | 2 | 2,992 | 2,317 | 120 | 77% | 47,880 |
| Overall | | 4 | 5,984 | 5,015 | 240 | 84% | 377,231 |

Legend: * — Open rehearsals
 HKCC — Hong Kong Cultural Centre Concert Hall
 HKCH — Hong Kong City Hall Concert Hall
 STTH — Sha Tin Town Hall
 HKCO — HKCO Rehearsal Hall

Source: HKCO records

Remarks: The HKCO adopted the following methodology for producing the above reported performance results:

- (i) the maximum audience capacity (column (a)) was a pre-defined audience capacity of the venue (see para. 3.7(d)(ii));
- (ii) the paid audience figure (column (b)) represented the number of tickets sold via the URBTIX, including HKCO-paid complimentary tickets (see para. 3.7(b));
- (iii) the number of complimentary tickets (column (c)) represented the actual number of free complimentary tickets issued by URBTIX (see para. 3.7(a)); and
- (iv) the attendance rate was calculated by dividing the paid audience figure (column (b)) by the pre-defined audience capacity (column (a)), multiplied by 100% (see para. 3.7(d)).

Appendix D
(para. 3.8 refers)

**Revised performance results for regular concerts
(2008-09)**

| Concert | Venue | Number of performances | Revised maximum audience capacity (Note 1) (a) | Revised paid audience (persons — Note 2) (b) | Revised number of complimentary tickets (Note 3) (c) | Actual turnout (Note 4) (d) | Revised attendance rate (Note 5) (e) = (d)/(a) × 100% | Net ticket proceeds and proceeds from HKCO-paid complimentary tickets ($\$$) |
|---|--------------------------|------------------------|---|---|---|--------------------------------|--|---|
| Core programmes (Core business): | | | | | | | | |
| Concert 1* | HKCO | 1 | 50 | 20 | — | N/A | — | 272,697 ※43,102 |
| Concert 2 | HKCC | 2 | 3,129 | 2,329 | 267 | 2,165 | 69% | |
| Concert 3* | HKCO | 1 | 50 | 26 | — | N/A | — | 193,427 ※24,048 |
| Concert 4* | HKCO | 1 | 50 | 33 | — | N/A | — | |
| Concert 5 | HKCH | 2 | 2,660 | 1,557 | 292 | 1,689 | 63% | |
| Concert 6* | HKCO | 1 | 50 | 18 | — | N/A | — | 97,967 ※4,688 |
| Concert 7 | HKCH | 1 | 1,327 | 837 | 68 | 825 | 62% | |
| Concert 8 | HKCC (Studio Theatre) | 2 | 594 | 558 | 36 | 554 | 93% | 61,101 ※2,643 |
| Concert 9 | | 3 | 881 | 838 | 43 | 786 | 89% | 111,476 ※1,873 |
| Concert 10 | HKCC | 5 | 9,661 | 6,354 | 470 | 6,441 | 67% | 937,804 ※45,250 |
| Concert 11* | HKCO | 1 | 50 | 49 | — | N/A | — | 509,298 ※7,750 |
| Concert 12 | HKCC | 3 | 4,897 | 4,196 | 215 | 4,108 | 84% | |
| Concert 13 | HKCH | 2 | 2,660 | 1,332 | 349 | 1,495 | 56% | 146,525 ※66,958 |
| Concert 14 | HKCC | 2 | 3,176 | 1,143 | 945 | 1,732 | 55% | 140,959 ※228,270 |
| Concert 15 | HKCC | 1 | 1,951 | 1,659 | 93 | 1,684 | 86% | 1,240,300 ※26,600 |
| Concert 16 | STTH | 1 | 1,190 | 556 | — | 237 | 20% | 239,857 ※37,922 |
| Concert 17 | HKCC | 1 | 1,469 | 990 | 172 | 1,010 | 69% | |
| Concert 18 | HKCC | 1 | 1,594 | 1,187 | 126 | 1,169 | 73% | |
| Concerts 19-21 | HKCC (Studio Theatre) | 3 | 862 | 576 | 74 | 535 | 62% | 77,456 ※8,525 |
| Concert 22 | HKCC | 2 | 3,517 | 2,355 | 298 | 2,487 | 71% | 304,042 ※60,648 |

Appendix D
(Cont'd)
(para. 3.8 refers)

| Concert | Venue | Number of performances | Revised maximum audience capacity (Note 1) | Revised paid audience (persons — Note 2) | Revised number of complimentary tickets (Note 3) | Actual turnout (Note 4) | Revised attendance rate (Note 5) | Net ticket proceeds and proceeds from HKCO-paid complimentary tickets (\$) |
|-------------------------------|-------|------------------------|--|--|--|-------------------------|----------------------------------|--|
| | | | (a) | (b) | (c) | (d) | (e)=(d)/(a)×100% | |
| Concert 23 | HKCH | 1 | 120 | 113 | 0 | 93 | 78% | } 77,897 ※6,161 |
| Concert 24 | HKCH | 1 | 914 | 457 | 94 | 501 | 55% | |
| Concert 25 | HKCC | 2 | 2,900 | 1,649 | 279 | 1,586 | 55% | 209,554 ※50,385 |
| Concert 26 | HKCH | 1 | 1,313 | 901 | 180 | 953 | 73% | 124,965 ※39,230 |
| Concert 27 | STTH | 3 | 720 | 616 | 97 | 643 | 89% | 53,829 ※9,350 |
| Concert 28 | HKCH | 2 | 2,704 | 2,307 | 293 | 2,392 | 88% | 302,010 ※46,051 |
| Overall | | 46 | 48,489 | 32,656 | 4,391 | 33,085 | 68% | 5,101,164 ※709,454 |
| Core programmes (VPS): | | | | | | | | |
| Concert 29 | HKCC | 1 | 1,488 | 660 | 457 | 864 | 58% | } 211,391 ※117,960 |
| Concert 30 | HKCC | 1 | 1,713 | 1,271 | 414 | 1,485 | 87% | |
| Concert 31 | HKCC | 2 | 2,992 | 2,394 | 0 | 2,275 | 76% | 47,880 |
| Overall | | 4 | 6,193 | 4,325 | 871 | 4,624 | 75% | 259,271 ※117,960 |

Legend: * — Open rehearsals
 HKCC — Hong Kong Cultural Centre Concert Hall
 HKCH — Hong Kong City Hall Concert Hall
 STTH — Sha Tin Town Hall
 HKCO — HKCO Rehearsal Hall
 ※ — Ticket proceeds from HKCO-paid complimentary tickets
 N/A — Not applicable (No attendance information was available for open rehearsals held at HKCO Rehearsal Hall).

Source: *Audit's calculations based on HKCO & LCSD records*

Note 1: *The revised maximum audience capacity represented the actual number of seats allocated for use for individual concerts.*

Note 2: *The revised paid audience figure excluded HKCO-paid complimentary tickets.*

Note 3: *The revised number of complimentary tickets included both free complimentary tickets issued by URBIX and HKCO-paid complimentary tickets.*

Note 4: *The actual turnout was based on the records kept by the LCSD.*

Note 5: *The revised attendance rate was calculated by dividing the actual turnout (column (d)) by the revised maximum audience capacity (column (a)), multiplied by 100%.*

Complimentary ticket strategy and monitoring system

I. Recipient categories and quotas

1. (a) *Categories of persons entitled to complimentary tickets*

A. *HKCO guests*

- (a) Members of the Executive and Legislative Council;
- (b) important officers of the HAB and the LCSD, and the Hong Kong Arts Development Council;
- (c) arts advisors of the LCSD;
- (d) important consular officials;
- (e) directors and senior staff of major cultural institutes;
- (f) chairmen and members of the District Councils;
- (g) sponsors and individuals/organisations who have rendered assistance to the performance;
- (h) participating artists for the performance; and
- (i) guests from cultural field and overseas guests from the Government;

B. *Media*

C. *HKCO Council members and music advisors*

D. *HKCO management and staff* (including the ED, the AD, departmental managers, the resident conductor, and the research and development officer);

(b) *Quotas are set on complimentary tickets to be issued to HKCO guests only (i.e. only applicable to Class A in (a) above), as follows:*

| Venue capacity (seats) | Maximum number of complimentary tickets (for each performance) |
|------------------------|--|
| 301 – 900 | 30 |
| 901 – 1,300 | 40 |
| 1,301 – 1,700 | 50 |
| 1,701 – 2,000 | 60 |
| 2,001 – 10,000 | 70 |
| 10,001 or above | 100 |

If the ticket sales for a particular performance do not reach 30% three weeks before it is held, the ED is allowed to issue complimentary tickets above the quotas, up to 10% of the total tickets available for sales. If the 10% limit is exceeded, approval from the Council Chairman is required; and

(c) ***Entitlement***

Each person is generally entitled to a maximum of two complimentary tickets only. Any special arrangement will require the Council Chairman's approval.

II. Complimentary tickets for special public relations and marketing purposes

2. The HKCO has set the following arrangement for the issue of complimentary tickets for special PR and marketing purposes:

- (a) if the ticket sales for a particular performance do not reach 30% three weeks before it is held, the ED is allowed to issue complimentary tickets to sponsors or voluntary/social welfare organisations who have previously rendered assistance to the HKCO (up to 10% of the total tickets available for sales). To maintain the HKCO image and to avoid excessive issue, such complimentary tickets are to be distributed to the sponsors/organisations on a rotational basis; and
- (b) if the 10% limit is exceeded, approval from the Council Chairman is required.

III. Complimentary tickets issued to administrative staff

3. If the ticket sales for a particular performance do not reach 30% three weeks before it is held, complimentary tickets can be issued to administrative staff for the purpose of enhancing their understanding of the HKCO concerts and securing their commitment to the HKCO.

IV. Complimentary tickets issued to sponsors

4. Under a sponsorship scheme introduced since 2007, the HKCO issues complimentary tickets to sponsors based on an approved scale depending on the sponsorship amount. The number of complimentary tickets to be issued ranges from 100 to 300, with a minimum sponsorship amount of \$100,000.

5. The ED is allowed to approve the issue of complimentary tickets up to a maximum ticket value of \$100,000. Any amount exceeding \$100,000 requires the approval of the Chairman of Marketing Committee.

V. Monitoring mechanism

6. Additional tickets issued for special PR and marketing purposes have to be reported at meetings of the Marketing Committee. Recipients' Lists have to be regularly circulated at meetings of the Council. Recipients' attendance has also to be reported bi-monthly to the Council.

Source: HKCO Marketing Manual

Appendix F
(paras. 3.22 and 3.26(k)
refer)

Audit examination of complimentary tickets issued for 7 concerts

| Concert | Number of complimentary tickets | Record of ticket requests | Record of ticket acknowledgement | Recipients' List (including attendance) presented at Council meeting? | Examples of improper and/or incomplete written records |
|--------------------------------|---|--|----------------------------------|---|--|
| Concert 2 (1st performance) | (a) HKCO guests 60 (b) Media 6 (c) Council members / music advisors 8 (d) HKCO staff 18 (e) PR and marketing 40 <u>132</u> | 122 tickets (92%) were issued without record of requests | No records | No records | |
| Concert 2 (2nd performance) | (a) HKCO guests 20 (b) Media 2 (c) Council members / music advisors 3 (d) HKCO staff 9 (e) Sponsor 100 (f) Unused tickets 1 <u>135</u> | 35 tickets (26%) were issued without record of requests | | | |
| Concert 5 (1st performance) | (a) HKCO guests 36 (b) Media 2 (c) Council members / music advisors 13 (d) HKCO staff 10 (e) PR and marketing 104 (f) Unused tickets 4 <u>169</u> | 143 tickets (85%) were issued without record of requests | | | |
| Concert 5 (2nd performance) | (a) HKCO guests 13 (b) Media 3 (c) Council members / music advisors 7 (d) HKCO staff 10 (e) PR and marketing 73 (f) Unused tickets 17 <u>123</u> | 113 tickets (92%) were issued without record of requests | | | |

Appendix F
(Cont'd)
(paras. 3.22 and 3.26(k)
refer)

| Concert | Number of complimentary tickets | Record of ticket requests | Record of ticket acknowledgement | Recipients' List (including attendance) presented at Council meeting? | Examples of improper and/or incomplete written records |
|---------------------------------|---|--|----------------------------------|---|--|
| Concert 14 (1st performance) | (a) HKCO guests 161 (b) Media 16 (c) Council members / music advisors 14 (d) HKCO staff 29 (e) Sponsor 506 (f) Unused tickets 21 <u>747</u> | 163 tickets (22%) were issued without record of requests | No records | No records | 161 complimentary tickets were issued to guests (exceeding the quota of 70 set for the venue) without special approval from Council Chairman. |
| Concert 14 (2nd performance) | (a) HKCO guests 14 (b) Media 7 (c) Council members / music advisors 10 (d) HKCO staff 14 (e) PR and marketing 116 (f) Sponsor 37 <u>198</u> | 186 tickets (94%) were issued without record of requests | | | 100 complimentary tickets were issued under PR and marketing to two local media firms without documented justification. Only verbal approval from Council Chairman had been sought. No written approval was noted. |
| Concert 25 (1st performance) | (a) HKCO guests 18 (b) Media 3 (c) Council members / music advisors 8 (d) HKCO staff 14 (e) PR and marketing 155 (f) Unused tickets 17 <u>215</u> | 84 tickets (39%) were issued without record of requests | | | 155 complimentary tickets were issued under PR and marketing to two local media firms without documented justification. Only verbal approval from Council Chairman had been sought. No written approval was noted. |
| Concert 25 (2nd performance) | (a) HKCO guests 23 (b) Media 2 (c) Council members / music advisors 4 (d) HKCO staff 13 (e) PR and marketing 10 (f) Unused tickets 12 <u>64</u> | 60 tickets (94%) were issued without record of requests | | | 10 complimentary tickets were issued to a non-profit making organisation under PR and marketing without documented justification. |

Appendix F
(Cont'd)
(paras. 3.22 and 3.26(k)
refer)

| Concert | Number of complimentary tickets | Record of ticket requests | Record of ticket acknowledgement | Recipients' List (including attendance) presented at Council meeting? | Examples of improper and/or incomplete written records |
|---------------------------------|--|--|----------------------------------|---|---|
| Concert 28 (1st performance) | (a) HKCO guests 18 (b) Media 6 (c) Council members / music advisors 12 (d) HKCO staff 18 (e) PR and marketing 44 (f) Unused tickets 18 <u>116</u> | 62 tickets (53%) were issued without record of requests | No records | No records | |
| Concert 28 (2nd performance) | (a) HKCO guests 24 (b) Media 9 (c) Council members / music advisors 16 (d) HKCO staff 13 (e) Sponsor 104 (f) Unused tickets 11 <u>177</u> | 69 tickets (39%) were issued without record of requests | | | |
| Concert 29 | (a) HKCO guests 30 (b) Council members / music advisors 8 (c) HKCO staff 7 (d) PR and marketing 405 (e) Unused tickets 7 <u>457</u> | 368 tickets (81%) were issued without record of requests | | | 370 complimentary tickets were issued under PR and marketing to 11 participating artists, without obtaining Council Chairman's approval and without documented justification. |
| Concert 30 | (a) HKCO guests 33 (b) Media 14 (c) Council members / music advisors 13 (d) HKCO staff 14 (e) PR and marketing 298 (f) Sponsor 34 (g) Unused tickets 8 <u>414</u> | 409 tickets (99%) were issued without record of requests | | | 298 complimentary tickets were issued under PR and marketing to 2 local media firms and 5 participating artists, without documented justification. |

Source: HKCO records

**Disposal of drums
 (mid-2003 to November 2009)**

| Year | Sold (Note 1) | | Damaged (Note 2) | | Given away (Note 3) | | Total | |
|--------------|------------------|------------------|---------------------|------------------|------------------------|------------------|--------------|------------------|
| | Number | Cost (\$'000) | Number | Cost (\$'000) | Number | Cost (\$'000) | Number | Cost (\$'000) |
| 2003 | 283 | 133 | 0 | 0 | 0 | 0 | 283 | 133 |
| 2004 | 77 | 32 | 185 | 57 | 0 | 0 | 262 | 89 |
| 2005 | 128 | 59 | 268 | 80 | 301 | 106 | 697 | 245 |
| 2006 | 205 | 72 | 99 | 31 | 0 | 0 | 304 | 103 |
| 2007 | 34 | 14 | 70 | 20 | 0 | 0 | 104 | 34 |
| 2008 | 29 | 6 | 0 | 0 | 5 | 1 | 34 | 7 |
| 2009 | 45 | 11 | 1 | 0 | 46 | 12 | 92 | 23 |
| Total | 801 | 327 | 623 | 188 | 352 | 119 | 1,776 | 634 |

Source: HKCO records

Note 1: Sale proceeds totalled \$297,000.

Note 2: Drums were written off when they were found damaged (by moulds and wood-boring insects).

Note 3: 301 drums were given away as gifts after a performance in the United States in 2005, 45 to schools for organising drum activities and 6 as souvenirs to sponsors.

Appendix H
(para. 5.16 refers)

Discrepancies in drum stock
(30 November 2009)

| Type of drum | Opening balance (a) | Sold (b) | Damaged (c) | Given away (d) | Closing balance (e) = (a) – (b) – (c) – (d) | Stock-take balance (f) | Shortage/ (Surplus) (g) = (e) – (f) |
|----------------------|---------------------------|-------------|----------------|----------------------|--|------------------------------|---|
| 1. 3.5-m Da Gu | 1 | 0 | 0 | 0 | 1 | 1 | 0 |
| 2. 135-cm Da Gu | 2 | 0 | 0 | 0 | 2 | 0 | 2 |
| 3. 100-cm Tang Gu | 40 | 17 | 5 | 0 | 18 | 1 | 17 |
| 4. 80-cm Tang Gu | 2 | 0 | 0 | 0 | 2 | 0 | 2 |
| 5. 70-cm Tang Gu | 150 | 86 | 37 | 10 | 17 | 6 | 11 |
| 6. 60-cm Tang Gu | 50 | 18 | 2 | 0 | 30 | 30 | 0 |
| 7. 55-cm Bian Gu | 150 | 86 | 15 | 40 | 9 | 9 | 0 |
| 8. 50-cm Tang Gu | 80 | 23 | 21 | 60 | (24) | 3 | (27) |
| 9. 50-cm Bian Gu | 250 | 178 | 2 | 45 | 25 | 2 | 23 |
| 10. 45-cm Bian Gu | 150 | 91 | 10 | 44 | 5 | 11 | (6) |
| 11. 40-cm Bian Gu | 50 | 10 | 0 | 0 | 40 | 0 | 40 |
| 12. 35-cm Bian Gu | 150 | 97 | 0 | 45 | 8 | 10 | (2) |
| 13. 23-cm Tang Gu | 900 | 195 | 531 | 108 | 66 | 81 | (15) |
| Total | 1,975 | 801 | 623 | 352 | 199 | 154 | 45 |

Source: HKCO records

Acronyms and abbreviations

| | |
|--------|--|
| AD | Artistic Director |
| Audit | Audit Commission |
| cm | centimetre(s) |
| ED | Executive Director |
| FSA | Funding and Services Agreement |
| FSTB | Financial Services and the Treasury Bureau |
| HAB | Home Affairs Bureau |
| HKCC | Hong Kong Cultural Centre |
| HKCH | Hong Kong City Hall |
| HKCO | Hong Kong Chinese Orchestra Limited |
| LCSD | Leisure and Cultural Services Department |
| m | metre(s) |
| PPP | Public private partnership |
| PR | Public relations |
| R&D | Research and development |
| STTH | Sha Tin Town Hall |
| URBTIX | Urban Ticketing System |
| VPS | Venue Partnership Scheme |