

Report No. 54 of the Director of Audit — Chapter 6

HONG KONG CHINESE ORCHESTRA LIMITED

Summary

1. The Government's cultural policy objective 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, including the Hong Kong Chinese Orchestra Limited (HKCO). In 2008-09, the total income of the HKCO was \$64.5 million, of which \$53.1 million was government subvention. To ensure proper administration of the HKCO and that public money is used properly and cost-effectively, the Home Affairs Bureau (HAB) enters into a Funding and Services Agreement (FSA) with the HKCO on an annual basis. The Audit Commission (Audit) has recently conducted a review of the HKCO's governance and management.

Corporate governance

2. *Proceedings of meetings.* The HKCO is governed by a Council which is supported by four committees. Audit found that: (a) there were 22 occasions when some Council members had not followed the HKCO requirement of submitting a written declaration as to whether there was any conflict of interests in relation to the agenda items before attending the Council meetings held from October 2008 to September 2009; (b) there was no record showing that Council members had made additional declarations before discussing papers tabled at the meetings and issues raised under "Any other business"; and (c) for the Council and committee meetings held from October 2007 to September 2009, over 50% of the meeting documents were distributed later than the HKCO stipulated time. *Audit has recommended that the HKCO should: (a) review the arrangements for declaring conflict of interests and ensure that the laid-down declaration requirements are strictly complied with; and (b) remind the administration department to distribute meeting documents within the stipulated time.*

3. *Audit requirements.* According to the FSA (since 2005-06), for each financial year, an audited financial report submitted by the HKCO shall contain an audit opinion as to whether the HKCO has complied with requirements set by the Government (including terms and conditions of the FSA). However, for the four years from 2005-06 to 2008-09, the reports submitted by the HKCO did not contain such an audit opinion. *Audit has recommended that the Secretary for Home Affairs should follow up the issue of compliance by the HKCO with the audit requirements in the FSA.*

Core activities

4. ***Performance results reported to the Government.*** To account for its performance for each financial year, the FSA requires the HKCO to submit to the Government a Self-evaluation Report. From an examination of the 2008-09 Report on the HKCO's core activities (i.e. the conduct of regular concerts), Audit found that the Report did not present a proper picture of the actual performance results because: (a) the 1,941 complimentary tickets reported represented only the free tickets issued by the Urban Ticketing System of the Leisure and Cultural Services Department (LCSD) to the HKCO for distribution. Another 3,321 complimentary tickets purchased by the HKCO for promotional purposes were not included; (b) the paid audience figure of 40,691 reported should not have included the 3,321 HKCO-paid complimentary ticket holders; (c) the ticket proceeds of \$6.19 million reported should not have included \$0.83 million being proceeds from the sale of complimentary tickets to the HKCO itself; and (d) the attendance rate reported was arrived at by dividing the paid audience figure by an audience capacity pre-defined by the HKCO. The attendance rate based on the paid audience figure could have been overstated when the absence rate was high (as seen in a few concerts held in 2008-09). There were also concerts for which the reported attendance rates exceeded 100% because the number of seats allocated for use was greater than the pre-defined audience capacity. *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, with clear definitions and methodologies on the performance information to be compiled in the Report; and (b) require other performing arts groups to adopt similar improvements in their Self-evaluation Reports.*

5. ***Strategy and monitoring system for issuing complimentary tickets.*** Audit found that: (a) in 2008-09, the HKCO had issued 5,262 complimentary tickets. As compared with the LCSD which also holds a lot of cultural events each year, the HKCO's complimentary ticket strategy is more generous and monitoring system more relaxed; (b) a proper and complete written record of complimentary ticket requests and acknowledgement was not always maintained; and (c) in many cases, there was no documentation on justifications and on approvals for additional complimentary tickets issued. *Audit has recommended that the HKCO should: (a) critically review, and revise as appropriate, its complimentary ticket strategy and monitoring system; (b) explore more effective measures to promote the ticket sales of its regular concerts; (c) maintain proper records of complimentary ticket requests and acknowledgement; and (d) improve the documentation on justifications and approvals for additional complimentary tickets issued.*

6. ***Good initiatives that should be further promoted.*** Under a special promotion scheme, at the request of the sponsoring company, the HKCO issued/would issue some 7,000 tickets over 3 years (starting from 2008-09) for selected concerts to the youth and the underprivileged. Surveys conducted by the HKCO showed that the scheme had very positive feedback from participants. *Audit has recommended that the HKCO should step up its efforts to plan and organise similar educational programmes to promote Chinese music.*

7. *Concerts held as “private functions” for commercial sponsors.* There were two occasions (one in 2008-09 and another in 2009-10) when the HKCO’s regular concerts were arranged as “private functions” (tickets not available for public sales) for commercial sponsors. On each of the occasions, the sponsorship was unable to cover the full cost of the performance. While Audit appreciates the HKCO’s effort to expand the income and audience base in allowing some of its concerts to be held as a private function, there is a need to charge the commercial sponsor the full cost to avoid the cross-subsidisation of a private function by government fund. *Audit has recommended that the HKCO should require commercial sponsors to bear the full cost of concerts to be held as private functions for them.*

8. *Formulating the seating and ticketing strategy.* As a common practice, the HKCO would withhold from ticket sales those seats in less favourable viewing positions or with sound effect hampered (temporarily blocked seats). For 2008-09, the temporarily blocked seats varied for different concerts, ranging from 0% to 27%. *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; and (b) explore the desirability of offering temporarily blocked seats for ticket sales at discounted prices.*

Human resources management

9. *Utilisation of artistic staff resources.* The HKCO has 88 artistic staff on its establishment. With the exception of the Artistic Director (AD), the resident conductor and the research and development (R&D) officer, other artistic staff are required under their employment contracts to work 28 hours a week. They are entitled to time off for any overtime work. Based on a sample checking of the 2008-09 duty rosters and attendance records of these artistic staff, Audit found that: (a) the actual working hours of 20 of them averaged 703, which were 533 (43%) less than the conditioned working hours of 1,236 for that year; (b) there is scope for engaging them more on outreach community activities, which are important for the promotion and education of Chinese music; and (c) they worked less than the conditioned hours in December 2008, but were granted time off on two occasions. *Audit has recommended that the HKCO should: (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; and (c) 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.*

10. ***Duty visits outside Hong Kong.*** Based on a sample checking of the government-subsidised duty visits in 2007 and 2008, Audit found that: (a) the Executive Director (ED) on three occasions and a Council member on one occasion, were provided with Business class air passage instead of Economy class as stipulated in the then prevailing HKCO Human Resources Manual; and (b) the ED on one occasion and five staff on two occasions, were provided with a higher grade accommodation than their entitlement as stipulated in the then prevailing Manual. In 2009, the HKCO amended the Manual to provide that Council representatives, the AD and the ED would travel on Business class for overseas performance tours. This provision is more favourable than those adopted by the Government and some subvented bodies. *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.*

11. ***Management of the R&D officer.*** In September 2003, the HKCO appointed a principal musician as its R&D officer. 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 his employment contract. However, the HKCO had not promptly sorted out with him the intellectual property right issue and the cost implications. In the event, research cost was incurred by the R&D officer without any prior approval or budgetary control. The HKCO finally paid the R&D officer \$350,000 for 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. Audit also noted that milestone dates were not set in the four employment contracts (September 2003 to August 2011) for measuring the progress of the R&D officer's work. *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 R&D work; and (b) set milestone dates in the R&D officer's employment contract for measuring the progress of his work.*

Other administrative issues

12. ***Procurement procedures.*** Audit found that: (a) in 2009, the HKCO only selected one to two nominated suppliers each for the provision of common types of goods/services (such as stationery and courier services); and (b) there were no laid-down tendering procedures. *Audit has recommended that the HKCO should: (a) invite more suppliers to participate in its annual evaluation exercise for the selection of nominated suppliers; and (b) set out clearly the tendering procedures.*

13. ***Fixed asset management.*** In 2003, the HKCO purchased 1,975 drums at a cost of \$976,000 for the first Drum Festival. Audit found that: (a) the acquisition and subsequent disposals of these drums were not recorded in the HKCO fixed asset register; (b) over the past 6.5 years, the HKCO only conducted stock-taking of the drums once (in November 2009). There were discrepancies between the physical stock and the HKCO's records for 10 of the 13 types of drums; and (c) while the drums were excessive to the HKCO's normal requirement, the HKCO did not formulate a disposal plan in 2003. In the event, storage cost totalling \$617,000 was incurred and 623 drums were damaged before they could be disposed of by sale or donation. *Audit has recommended that the HKCO should: (a) consider amending the guidelines to include large batch of musical instruments with significant aggregate value as fixed assets for proper management control; (b) require the administration staff to conduct regular stock-taking of valuable assets; and (c) for any assets procured specifically for a major event, 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.*

14. ***Insurance cover for Council members.*** In 2003, the HKCO decided to provide medical insurance for its Council members to cover their surgical and hospital expenses arising from their attendance at HKCO activities. However, the medical insurance procured covered such expenses irrespective of whether they arose from attending HKCO activities or not. *Audit has recommended that the HKCO should review the appropriateness of the existing medical insurance procured for its Council members.*

Response from the HKCO and the Administration

15. The HKCO welcomes this audit review and agrees in general with the audit recommendations. The Secretary for Home Affairs agrees with the audit recommendations.

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