

CHAPTER 3

Commerce and Economic Development Bureau

Mega Events Fund

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

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MEGA EVENTS FUND

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MEGA EVENTS FUND

Executive Summary

1. In May 2009, the Finance Committee (FC) of the Legislative Council (LegCo) approved a commitment of \$100 million for setting up the Mega Events Fund (MEF) to provide financial support for local non-profit-making organisations to host mega arts, cultural and sports events in Hong Kong. The MEF was set up for a period of three years up to March 2012 (original MEF). In April 2012, the LegCo FC approved another commitment of \$150 million to support the MEF which would continue to operate for another five years up to March 2017. The MEF was at the same time modified into a two-tier MEF (modified MEF) to enhance flexibility and facilitate its effective operation. The modified MEF has become effective since May 2012 and covers: (a) Tier 1 which is a new mechanism to attract internationally-acclaimed mega events to Hong Kong; and (b) Tier 2 which is essentially a revised version of the original MEF with scope expanded to cover events with more entertainment elements.

2. Since its inception and up to February 2014, the MEF had supported the hosting of 24 events, involving approved MEF funding of \$97 million. The MEF is administered by the Tourism Commission (TC) of the Commerce and Economic Development Bureau (CEDB). An Assessment Committee was formed in June 2009 to advise the Government on the administration of the MEF. Six TC staff, with other duties, formed the MEF Secretariat which was set up to support the Assessment Committee and the operation of the MEF. Given that the MEF has operated for more than four years, the Audit Commission (Audit) has recently conducted a review of the operational effectiveness of the MEF.

Achievement of the MEF objectives

3. *High percentage of rejected applications and frequent cases of MEF events subject to financial sanctions.* The TC invited two rounds of applications each year. For both the original MEF and the modified MEF, the rejection rate for applications was 69%. Although the rejection rate was high, the number of MEF

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events which had been subject to financial sanctions by the TC was still high. Audit noted that nine (41%) of the 22 completed MEF events as of February 2014 had been subject to financial sanctions (including one Tier 2 event in 2013). The Administration needs to take more effective measures to address the issue (paras. 2.8 to 2.11).

4. ***Deliverables and targets of MEF events.*** Funding agreements signed by the TC with the organisers set out in detail the event deliverables and targets, against which the latter have to report the actual outcome in their post-event evaluation reports submitted after the hosting of the events. In April 2012, the CEDB informed the LegCo FC that since the inception of the MEF, the 16 MEF events approved as of March 2012 had created a total of about 10 000 jobs during the event periods, and attracted a total of over 900 000 participants (paras. 2.13 and 2.15). Audit however found the following:

- (a) most of the jobs created were extremely short term and temporary in nature, with many lasting for one to a few days only, and would have little or no impact on the labour market (para. 2.16);
- (b) although the Secretariat staff conducted headcounts on the number of the organisers' staff present during on-site inspections, they did not randomly verify the number of paid staff employed for the events, nor did they carry out subsequent checks of the organisers' recruitment and payroll records. As a result, there could be a risk of over-reporting in the number of paid jobs created, as illustrated in one repeated MEF event held during the course of audit examination (see para. 5 below). Because similar events had been held by the organiser in earlier years, for which some 5 000 paid jobs were reported to have been created and included in the total of "10 000 paid jobs" reported to LegCo in April 2012, it is highly probable that the figure had been overstated (paras. 2.17 to 2.19);
- (c) a large number of the reported figure of 900 000 participants were related to a few events which were held in open area with free-flow pedestrians. However, the organisers were not required to inform or agree with the MEF Secretariat beforehand the counting methods adopted and the Secretariat seldom verified or raised queries on the counting methods or the results the organisers reported in their post-event evaluation reports (para. 2.22); and

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- (d) the funding agreements have generally laid down the requirement for the organisers to develop special tourist packages to attract visitors to the events. Audit however noted that many of the MEF events had not been too successful in attracting overseas visitors to come to Hong Kong specifically for the events. For nine of 18 events with the requirement of developing special tourist packages included in the funding agreements, the organisers reported that no such packages could be developed (paras. 2.26 and 2.27).

5. Audit conducted an on-site visit on a one-day MEF event held in early 2014. The organiser undertook to create a minimum of 3 100 paid jobs for the local people of Hong Kong, including 3 000 performers of specified types for the event. Audit observed that many performers involved in specified shows on the event day were not professional ones, with many young children accompanied by parents/teachers and with some elderly people. After completion of the event, Audit made a request for the name list of the 3 000 “paid” performers and the pay they each received/would receive. The organiser reported that there were only some 1 850 performers, which was far less than the pledge of 3 000 “paid” performers set in the funding agreement. However, Audit noted that at least 410 of the 1 850 performers were directly recruited from three primary schools and eight kindergartens. Such young school children could hardly be regarded as “paid” performers and should not be counted as “paid jobs created” by the event. In late March 2014, the organiser informed the TC that the event had only created 1 317 paid jobs for performers (para. 2.17).

6. *The need to identify new MEF events.* Among the 24 MEF events approved as of February 2014, 18 events were ongoing and/or repeated events. Six brand new events had been held, but financial sanctions had been imposed by the TC on three of them. Only one brand new event had been approved since mid-2011. Audit considers that the MEF needs to address the imbalance between new and repeated events by identifying more new events (paras. 2.33 to 2.35).

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Assessment of applications

7. *Inadequacies in the governance of the Assessment Committee.* In general, the Assessment Committee has a sound governance structure. However, there are a few areas in which the governance of the Committee can be improved. These include, among others, the low attendance of two Committee members and the need for the CEDB to work on identifying and appointing additional suitable members to serve the Committee as the appointment of the Chairman and all six non-official members would expire in June 2014 (para. 3.5).

8. *Inadequacies in some event organisers' competence in organising MEF events.* The success of an MEF event very often hinges on the organiser's capability and experience in organising the event. Organisers for two events had been disallowed to apply for MEF funds in future and were imposed financial sanctions by the TC on their MEF funding because of the lack of experience and the failure in complying with some of the terms and conditions in the funding agreements. Audit also found inadequacies in the TC's assessment of the organisers' associates who had assumed key roles in organising the events (paras. 3.6, 3.9 and 3.10).

9. *Comments/reservations made by relevant Bureaux/Departments (B/Ds) not always followed up.* The MEF Secretariat would seek comments from relevant B/Ds when processing the applications. Audit however noted that comments received from B/Ds did not appear to have been adequately followed up by the Secretariat. In one MEF event, despite the relevant B/Ds' comments that the "new" event was only merging and bundling together four local re-run productions which had been staged many times in the past, MEF funding was approved without any provisions set in the funding agreement to govern the re-performance of the four MEF performances on dates in close proximity to the MEF event period. The MEF event comprised a total of 45 shows, with 10 relating to Performance A. It transpired that the organisers had staged six shows of Performance A in Hong Kong and four shows in Guangdong Province of the Mainland before the funding agreement was signed, but the TC and the Assessment Committee had not been informed. Performance A was also found to have been re-performed in Macau on the second day after the funding agreement was signed, and three more times in Canada two days after the MEF shows for Performance A in Hong Kong were staged. The organisers eventually failed to attract the pledged numbers of participants and non-local visitors to the MEF event (para. 3.13).

Executive Summary

Monitoring and evaluation of events

10. *Conflicts of interest.* In some of the MEF events, related agents were employed or major services were procured from associated service providers, but the organisers in most of the events had not declared their relationship with the related parties and had not notified the TC in writing for any related party procurements or staff recruitments they had made. The MEF Secretariat had also not requested clarifications and/or conducted additional checks on the organisers' procurements and recruitments (paras. 4.8 and 4.9).

11. *Suspected irregularities identified by Audit.* Audit examination of the MEF records for selected events has revealed various suspected irregularities in relation to event procurements, staff recruitments and other income and expenditure items (para. 4.14). Examples include the following:

- (a) MEF funding in respect of the event mentioned in paragraph 9 above was granted solely for publicity of the four local re-run performances. As the organisers had staged Performance A in Macau two months before the MEF shows in Hong Kong and three more times in Canada two days after the MEF shows were over, the risk of improperly charging some of the organisers' advertising and promotion expenses for the same performance in other shows against the MEF funding is high. Audit identified various suspicious payments, but could not ascertain whether they were also incurred for the same performance in the other shows;
- (b) service procurements and recruitment of performers from related parties amounted to 36% to 48% of the total expenditures incurred for three events, but the procurements and recruitments were not supported by quotations, invoices, staff recruitment and payroll records with performers' acknowledgement of receipt;
- (c) an overpayment was made to an organiser, but had remained undetected even after the MEF Secretariat's checking; and
- (d) improper refund of an unspent event balance to sponsor, instead of the Government.

Executive Summary

12. *Monitoring of ticket distribution for MEF events.* Audit found that the TC had generally not set any conditions in the funding agreements to govern the distribution of tickets. For example, in one event involving MEF approved funding of \$15 million (some 31% of the total event cost), it was found that 93% of the tickets were issued as free tickets to various parties, with only 7% sold to the general public and no special tourist packages developed for the event (para. 4.16).

Way forward

13. The modified MEF was launched in May 2012. As of March 2014, no Tier 1 events had been held and the number of approved Tier 2 events had also been decreasing. The overall situation calls for a review (paras. 2.12 and 5.10).

14. *Challenges ahead.* Audit notes that there are various challenges ahead in the implementation of the modified MEF. Such challenges include the difficulties in securing Tier 1 events, the need to identify new Tier 2 events, the risk of abuse, and the need to expedite the development of a more versatile mechanism for monitoring both Tier 1 and Tier 2 events (paras. 5.11 and 5.12).

Audit recommendations

15. **Audit recommendations are made in PART 5 of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), as the Controlling Officer of the MEF, should:**

Achievement of the MEF objectives

(a) **urge the TC to:**

- **conduct an overall review of the MEF, taking on board the audit findings and the challenges identified in this Audit Report; and**

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- exert more vigorous efforts to identify worthwhile Tier 1 events, and explore opportunities for more new Tier 2 events for implementation;
- (b) ascertain the underlying reasons, and explore improvement measures, for the high percentage of rejected applications and the frequent cases of MEF events which had been subject to financial sanctions;
- (c) develop a robust mechanism to validate the deliverables and targets as reported by the organisers to have been achieved by the MEF events;

Assessment of applications

- (d) address the inadequacies relating to the governance of the Assessment Committee;
- (e) ensure that the TC would require applicants to disclose their management teams and any associates who will be actively involved in organising the proposed events;
- (f) ensure that the TC would take more proactive action in following up B/Ds' comments;

Monitoring and evaluation of events

- (g) strictly enforce the funding requirement for the organiser and its agents/staff to declare any conflicts of interest in relation to procurement and staff recruitment, and ensure that the organiser has set up a mechanism to mitigate any such declared conflicts;
- (h) follow up the various suspected irregularities identified by Audit relating to event procurements, recruitment and other income and expenditure items, and draw lessons to be learned;
- (i) ensure that the TC would set funding conditions to govern the distribution of tickets in all future fee-charging MEF events; and

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Way forward

- (j) **urge the TC to expedite its development of a more versatile mechanism for monitoring both Tier 1 and Tier 2 events.**

Response from the Administration

16. The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), as the Controlling Officer of the MEF, welcomes the audit review and generally agrees with the observations and recommendations in the Audit Report. He considers that the review can help improve the overall operation, management and effectiveness of the MEF. The TC will take follow-up actions as appropriate in response to Audit's recommendations.

PART 1: INTRODUCTION

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

Background

1.2 In May 2009, the Finance Committee (FC) of the Legislative Council (LegCo) approved a commitment of \$100 million for setting up the Mega Events Fund (MEF) to provide financial support for local non-profit-making organisations to host mega arts, cultural and sports events in Hong Kong. The MEF was set up for a period of three years up to March 2012.

1.3 In April 2012, the LegCo FC approved another commitment of \$150 million to support the MEF which would continue to operate for another five years up to March 2017. The MEF was at the same time modified into a two-tier MEF to enhance flexibility and facilitate its effective operation. The two-tier MEF has become effective since May 2012 and covers the following:

- (a) ***Tier 1.*** It is a new mechanism to attract internationally-acclaimed mega events to Hong Kong; and
- (b) ***Tier 2.*** It is essentially a revised version of the original MEF with scope expanded to cover events with more entertainment elements, such as street parade, beer festival, pop concert, fashion show, etc.

Operation of the Mega Events Fund

1.4 Since its inception and up to February 2014, the MEF had supported the hosting of 24 events. They were related mainly to sports and cultural events, with 23 events already held and one to be held in June 2014. They together had involved approved MEF funding of \$97 million (\$51 million under the original MEF and \$46 million under the modified MEF). Of the 23 events already held, 22 had been completed by mid-February 2014, i.e. organisers had already submitted their

Introduction

post-event reports and audited accounts for the events as required by the MEF. More details of the 24 approved MEF-supported events are shown at Appendix A.

1.5 To be qualified for financial support from the MEF, an event must meet the following basic broad principles:

- (a) the event should raise the profile of Hong Kong internationally, create a branding impact, attract visitors to come to Hong Kong specifically for the event and/or lengthen their stay in Hong Kong and generate media coverage (both local and overseas);
- (b) the mega arts, cultural, sports or entertainment event should be of a considerable scale, with at least 10 000 people involved (including participants, spectators and reporters);
- (c) the event should contain an international element and include participants from the Mainland and overseas; and
- (d) the event should allow participation by the local public.

1.6 The MEF is administered by the Tourism Commission (TC — Note 1) of the Commerce and Economic Development Bureau (CEDB), with the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) serving as the Controlling Officer of the Fund. An Assessment Committee was formed in June 2009 to advise the Government on the administration of the MEF. The Committee, chaired by one non-official member, comprises six other non-official members from the tourism, cultural, arts, sports, event management and entertainment sectors as well as representatives from the Home Affairs Bureau (HAB), the Information Services Department (ISD) and the TC. Six TC staff, with other duties, formed the MEF Secretariat which was set up to support the Assessment Committee and the operation of the MEF.

Note 1: *The TC, headed by the Commissioner for Tourism, is responsible for formulating and coordinating the implementation of policies, strategies and plans for tourism development. It works closely with the Hong Kong Tourism Board and other organisations to promote the development of tourism in Hong Kong.*

1.7 When approving the MEF in May 2009, the LegCo FC set a funding condition (which has continued to apply under the modified MEF) that the Government's funding support for each event should not exceed 50% of the event's total cost. This condition was set in order to give a clear signal to event organisers that it would be their own responsibility to secure sufficient funding for the events and that they could not rely solely on public funding. In other words, the Government would only provide partial funding to the MEF events (Note 2). Contributions may be made to the events by the organisers, business sponsors or from event revenue (such as income from tickets sold).

1.8 For the operation of the MEF, the TC generally invites applications twice a year through the mass media and its website. For each round of applications, the MEF Secretariat conducts an initial screening of the applications and will consult relevant Government bureaux/departments (B/Ds) and the Hong Kong Tourism Board (HKTB) to assess the merits of the applications before making submissions to the Assessment Committee. In considering the applications, the Assessment Committee takes into account the following assessment criteria:

- (a) the economic benefits of the proposal, such as the number of visitors and participants to be brought to the event, their likely length of stay, jobs to be created, etc;
- (b) public relations and other benefits of the proposal, such as the event's ability to raise Hong Kong's international profile and the publicity value that will be generated in local and non-local media;
- (c) the scale of the event, particularly the number of participants;
- (d) the applicant's technical and project management capability, background and governance structure, track record, and whether the proposed implementation plan of the proposed event is practicable and reasonable, etc.; and

Note 2: *The MEF would generally provide funding that made up some 25% to 50% of the events' total costs.*

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- (e) financial viability of the project, whether the proposed budget is prudent and realistic, with sufficient alternative sources of funding, and whether the proposed performance indicators are reasonable.

In order to have a better understanding of selected applications, the Assessment Committee invites eligible applicants for a presentation before finalising its view. The Committee will make recommendations on individual applications to the Controlling Officer of the Fund (see para. 1.6) who will decide on approval or otherwise of the applications. Subject to a cap of the Government's funding at 50% of total cost for each event (see para. 1.7), MEF funding is usually granted to finance specific expenditure items (e.g. publicity expenses or players' fees) in the event cost budget submitted by the applicants.

1.9 Funding agreements are signed by the TC with the organisers (i.e. the successful applicants). The MEF Secretariat and the Assessment Committee monitor the progress of approved events and conduct evaluation upon completion of the events. Funds from the MEF are disbursed in phases. After completion of the approved events, organisers are required to submit post-event evaluation reports, publicity reports, survey reports (collectively termed "post-event reports") and audited accounts in a timely manner.

ICAC review

1.10 Since the inception of the MEF, the Independent Commission Against Corruption (ICAC) had been providing advice to the TC on the funding procedures of the Fund. In view of the risk of abuse, the ICAC conducted a follow-up study in 2010 to review the adequacy of the safeguards in the TC's procedures. In its Assignment Report of September 2010, the ICAC made recommendations to further enhance the application procedures to prevent corruption arising from the MEF scheme. The ICAC recommendations were accepted by the TC and have been implemented since December 2010.

1.11 After presenting the Assignment Report to its Corruption Prevention Advisory Committee, the ICAC further recommended that the TC should issue more stringent guidelines for its staff in evaluating events that involved substantial grants and carried a commercial name. Furthermore, the ICAC raised its concern with the need for continuing the MEF which was set up at a time of financial difficulties and,

in view of the changed economic situation, suggested that the TC should consider returning the unused funds (i.e. the balance of the time-limited MEF of \$100 million — see para. 1.2) to the Government. As it transpired, the MEF had continued to operate and in April 2012, the TC/CEDB introduced a modified two-tier MEF which comprised a new category called Tier 1 with Tier 2 which is essentially a revised version of the original scheme operated by the MEF (see paras. 1.3 and 2.4).

Audit review

1.12 According to the Administration, the MEF aims to finance the hosting of mega events in Hong Kong and to reinforce Hong Kong's position as the events capital of Asia. Most of the MEF events funded were initiated and organised by the private sector, with the Government's involvement at arms' length (see paras. 1.8 and 1.9). Since the inception of the MEF in 2009, events involving total MEF funding of \$97 million had been approved and the MEF will continue to operate until March 2017. Given that the MEF has operated for more than four years, the Audit Commission (Audit) conducted a review of the operational effectiveness of the MEF.

1.13 This Audit Report covers the following areas:

- (a) achievement of the MEF objectives (PART 2);
- (b) assessment of applications (PART 3);
- (c) monitoring and evaluation of events (PART 4); and
- (d) way forward (PART 5).

Audit has identified in this review various areas which call for stepping up the controls, and the various challenges ahead in the implementation of the modified MEF.

General response from the Administration

1.14 The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), as the Controlling Officer of the MEF, welcomes the audit review of the MEF and generally agrees with the observations and recommendations as stated in this Audit Report. He considers that the review can help improve the overall operation, management and effectiveness of the MEF. He has said that the TC will take follow-up actions as appropriate in response to Audit's recommendations.

Acknowledgement

1.15 Audit would like to acknowledge with gratitude the full cooperation of the TC staff working in the MEF Secretariat and also some of the organisers whose records for their MEF events held had been examined during the course of this audit review.

PART 2: ACHIEVEMENT OF THE MEF OBJECTIVES

2.1 This PART examines the achievement of the MEF objectives.

Background and justification

2.2 A number of home-grown events are held regularly in Hong Kong. Examples include the Hong Kong Marathon, the Hong Kong Sevens, the Chinese New Year Night Parade and the Cheung Chau Bun Festival. Many of these events are organised by the private sector and receive assistance from B/Ds. They attract international publicity and record public participation. In 2009, the MEF was set up with an aim to further promote Hong Kong as the events capital of Asia. It was expected that the establishment of the MEF would help attract more tourists, stimulate consumption and promote economic development. At that time when the economy was sinking into recession and the employment situation was expected to deteriorate further, the Financial Secretary pledged not to reduce government expenditure in spite of the economic downturn and reduction in revenue. The Administration adopted measures to increase expenditure in 2009-10 in the hope of easing the pressure of economic contraction, boosting domestic demand and increasing employment opportunities. Among the various measures introduced by the Administration to provide jobs and internship opportunities, the MEF was proposed and approved in May 2009 to be set up to provide financial support for local non-profit-making organisations to host attractive mega events in the areas of arts, culture and sports in Hong Kong over the three years from 2009-10 to 2011-12 (see para. 1.2).

2.3 In order to justify the setting up of the MEF to support event organisers who were interested in bringing mega events to Hong Kong, the Administration informed LegCo in May 2009 the following:

Achievement of the MEF objectives

- Hong Kong was a dynamic and vibrant city with many home-grown mega events held each year. Every year, each of these events attracted thousands of visitors in addition to a large number of local participants. Examples included the Chinese New Year Parade, Hong Kong Marathon, Hong Kong Sevens, Hong Kong Arts Festival, etc.
- Mega events not only added colour and vibrancy to the city, but also enriched the travel experience of visitors and reinforced Hong Kong's position as the events capital of Asia.
- Successful events generated extensive coverage of Hong Kong by the international media, created a branding effect for the city and raised Hong Kong's international profile. An example was the Chinese New Year Parade which was listed by the Lonely Planet and UK Times as a "not-to-be missed" event.
- Mega events also generated considerable economic benefits by boosting consumption and providing direct and indirect job opportunities in sectors including event planning and management, hotel, airline, food and beverage, retail, venue management, marketing and publicity, etc. Past experience had shown that different types of mega events created different types of jobs. A large-scale event such as the Hong Kong Sevens could lead to creation of roughly 800 to 900 jobs, while an event of smaller scale such as the Hong Kong International Dragon Boat Races would create about 130 jobs.
- Mega events would increase the opportunities to promote Hong Kong. For example, the Bledisloe Cup Rugby Tournament held for the first time in Hong Kong in November 2008 had attracted over 39 000 spectators (including 10 000 Australasian arrivals specifically for the event) and directly created some 800 jobs in the areas of event management, hospitality and security. The match was broadcast live on 12 international TV networks and a major TV channel in Hong Kong, reinforcing the branding of Hong Kong as Asia's events capital. It also allowed the Hong Kong Economic and Trade Offices and the HKTB's overseas offices (especially that in Australia) to leverage on the event for stepped-up promotion and publicity work on Hong Kong.

2.4 In the event, the LegCo FC approved in May 2009 a commitment of \$100 million for setting up the MEF and another commitment in April 2012 of \$150 million to support the continued operation of the MEF until March 2017 (see paras. 1.2 and 1.3). A brief description of how the MEF operated before and after May 2012 is shown below.

I. *MEF which expired in March 2012:*

- One-tier scheme
- ***Coverage:*** arts, cultural or sports events
- The MEF was open for application from eligible organisations twice a year and only non-profit-making organisations were eligible to apply.
- There was no upper limit on the financial support for individual events, but the Government's financial support should not exceed 50% of the event's total cost.

II. *Modified MEF since May 2012:*

- Two-tier scheme (Tier 1 and Tier 2)
- ***Coverage:*** arts, cultural, sports or entertainment events
- ***Tier 1:***
 - aims to attract new or established high profile mega events (such as sports events involving top international sports teams, world class classical or pop concerts) to Hong Kong. These events may be owned and/or operated by private event management companies or professional organisations established outside Hong Kong; and

(to be continued)

Achievement of the MEF objectives

(Cont'd)

- instead of inviting open applications, the CEDB will approach relevant event owners to explore whether they are interested in bringing these events to Hong Kong and, if so, will negotiate with the event owners on the terms and conditions.
- **Tier 2:** essentially similar to the original MEF in (I) above (Note). Tier 2 is open for application from eligible organisations twice a year and only non-profit-making organisations are eligible to apply.
- The 50% cap in (I) above continues to apply to both Tier 1 and Tier 2.

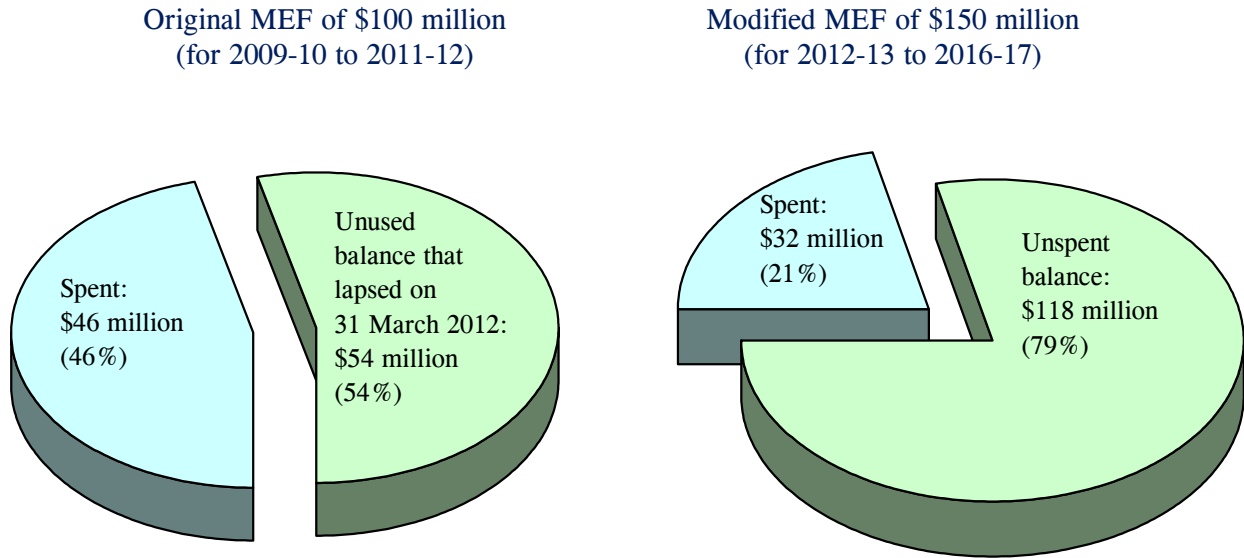
Note: Tier 2 improvements include expanding the MEF scope to cover entertainment events, removing the practice of reducing the funding amount for repeated applications and allowing organisers to retain operating surplus for organising the same event in the following year.

2.5 As mentioned earlier, the objective of the MEF is to provide financial support for local non-profit-making organisations to host attractive mega events in the areas of arts, culture, sports and entertainment to further promote Hong Kong as the events capital of Asia. With the modified MEF implemented since May 2012, the Administration has expected that the number of applications and MEF events would increase in the five years to March 2017 and more attractive mega events would be brought to Hong Kong.

2.6 As of February 2014, a total of 23 events had been held (see para. 1.4). The majority of the events funded were sports and cultural events. Figure 1 shows the actual expenditures up to 31 January 2014 for the MEF.

Figure 1

Expenditure spent under the MEF
(31 January 2014)



Source: TC records

Figure 1 shows that as at 31 January 2014:

- (a) more than half of the funds under the original MEF had not been used, but lapsed on 31 March 2012; and
- (b) almost 80% of the funds under the modified MEF had not been used although the modified MEF has been effective since May 2012.

Audit findings

2.7 The following audit issues are examined in this PART:

- (a) high percentage of rejected applications and frequent cases of MEF events which had been subject to financial sanctions (paras. 2.8 to 2.12);
- (b) deliverables and targets of MEF events (paras. 2.13 to 2.30);

Achievement of the MEF objectives

- (c) the need to identify new MEF events (paras. 2.31 to 2.35); and
- (d) some MEF events also funded by other Government funding sources/schemes (paras. 2.36 to 2.39).

High percentage of rejected applications and frequent cases of MEF events subject to financial sanctions

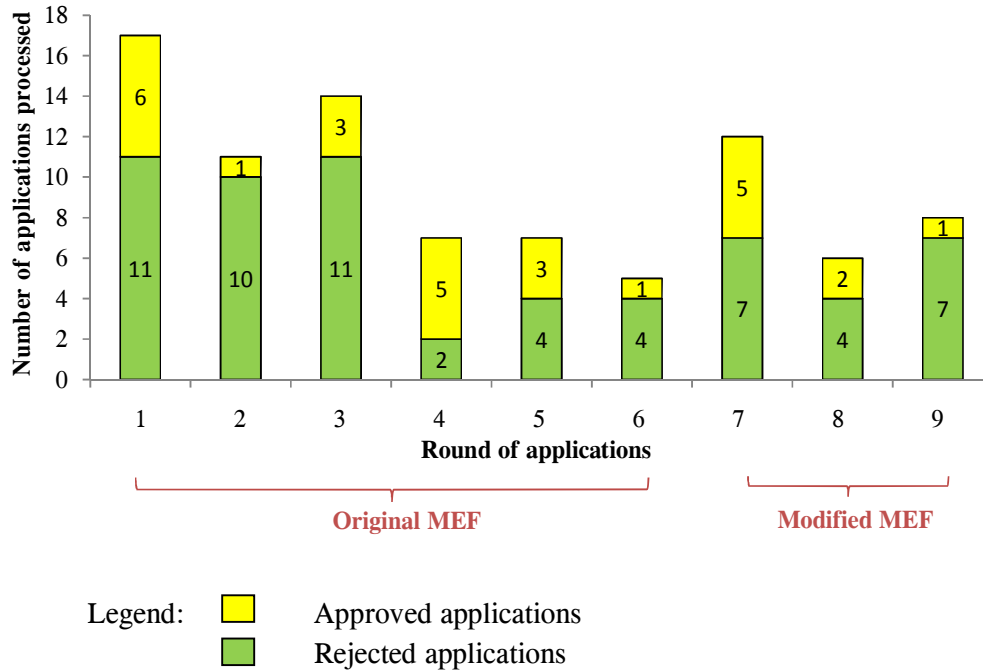
2.8. *High percentage of rejected applications.* The TC invited two rounds of applications each year. Figure 2 shows the number of approved and rejected applications in each round. In the first six rounds of applications received during the period (Rounds 1 to 6), of a total of 61 applications processed (Note 3), only 19 applications were approved (Note 4). The rejection rate was 69%. With the modified MEF implemented since May 2012, of a total of 26 Tier 2 applications processed (Rounds 7 to 9), only eight events had been approved. The rejection rate still remained high at 69%.

Note 3: *Applications withdrawn at different stages of processing were excluded for simplicity.*

Note 4: *Of 19 applications approved, three applicants subsequently withdrew their applications due to various reasons beyond the Government's control (e.g. event cancelled due to calendar conflict or difficulties encountered in finalising sponsors and venues). The approved MEF funding for these three events amounted to over \$21 million.*

Figure 2

Approved and rejected applications under the MEF
(31 January 2014)



Source: TC records

2.9 Rejected applications may include two types, namely:

- (a) applications rejected due to non-compliance with the MEF basic broad principles (see para. 1.5); and
- (b) applications not recommended by the Assessment Committee after assessment.

Figure 2 shows that the number of rejected applications remained high, even after the implementation of the modified MEF. This indicates that many of the applicants still did not understand the MEF basic broad principles (e.g. the scale and type of events to be eligible for MEF) and/or many of the proposed events could not reach the standard required by the Assessment Committee and the TC. In fact, in April 2012, the CEDB informed LegCo that because only local non-profit-making organisations were eligible for applying MEF funds, events hosted were generally relatively small in scale, and some of the organisers lacked the experience and

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ability to host very large scale iconic events, and many proposals put forward by the applicants were unimpressive and of rather limited scale.

2.10 *Frequent cases of MEF events which had been subject to financial sanctions.* Even with the small number of applications which had been approved, Audit noted that among the 22 completed MEF events as of February 2014 (see para. 1.4), nine (41%) events had been subject to financial sanctions imposed by the TC, with funding reductions ranging from \$0.1 million to \$1.1 million. Two event organisers were disallowed to apply for MEF funds in future. Financial sanctions had been imposed due to the organisers' non-compliance with the terms and conditions of the funding agreements and/or their less than satisfactory performance. Two examples of events subject to financial sanctions are shown below.

Event	Financial sanction (as a % of actual MEF funding)	Reasons
A	40%	The organiser had failed to perform and deliver the event in compliance with the relevant terms and conditions of the funding agreement. Adverse publicity was generated and reported in the media headlines during the event period.
B (Tier 2)	15%	The organiser had failed to deliver one of the additional activities required by the MEF. There were a number of public complaints. The procurement procedures and documentations for procurement of some goods and services were not to the satisfaction of the MEF Secretariat.

2.11 Although a high percentage of applications had been rejected during processing, the number of MEF events which had been subject to financial sanctions was still high (including one Tier 2 event in 2013). The Administration needs to take more effective measures to address the issue. Possible measures to improve the situation may include the following:

- (a) enhancing the publicity of the MEF, including taking steps to publicise more widely successful MEF events held to showcase the purpose and

availability of the MEF, and upload the implementation of such successful events onto the TC website. In this connection, it was noted that the HKTB had helped promote the MEF events through its tourism website. The TC may wish to explore hyperlinking its MEF-dedicated website to the HKTB's website to step up promotion;

- (b) enhancing the MEF transparency by informing unsuccessful applicants of the main reason(s) for their failure in applying for MEF grants (e.g. which criterion/criteria they had failed to meet — Note 5);
- (c) giving due consideration to the organisers' competence, background, governance structure and track records when examining applications in future, as recommended by the ICAC in its review in September 2010; and
- (d) holding briefing sessions with the organisers (especially first-time organisers), once their MEF applications have been approved to inform them the TC's expectations.

2.12 Audit further found that since the inception of the MEF, only six brand new events had been held, but three of them had been imposed with financial sanctions and only one brand new event had been approved in the recent five rounds of applications (i.e. since mid-2011). The lack of new events appears to be a challenge to the MEF. The CEDB's proposal of introducing a two-tier MEF, as approved by LegCo in April 2012 (see para. 2.4), may be a way forward to achieve the objectives of the MEF. According to the Administration, Tier 1 aimed to provide financial incentive to attract new or established high profile mega events to Hong Kong to reinforce the image of Hong Kong as the events capital of Asia. However, Audit notes that no Tier 1 events have been held even though the two-tier MEF has been implemented since May 2012, and the number of approved Tier 2 events was also reducing (see Figure 2 in para. 2.8). The overall situation calls for a review. This will be further discussed in PART 5.

Note 5: *According to the "Strengthening Integrity and Accountability — Administration of Government Funds" issued by the ICAC, unsuccessful applicants should be notified in writing of the results together with reasons for the decision, and whether they are allowed to re-submit applications and, if so, the conditions for re-submission.*

Deliverables and targets of MEF events

2.13 In order to qualify for financial support from the MEF, events should raise Hong Kong's profile, attract considerable visitors to come to Hong Kong, and allow local participation (see para. 1.5). Funding agreements signed by the TC with the organisers set out in detail the event deliverables and targets, against which the latter have to report the actual outcome in their post-event evaluation reports submitted after the hosting of MEF events. Such deliverables and targets may include:

- (a) event deliverables (e.g. the holding of a musical concert or a sports match at a specified venue);
- (b) number of paid jobs created by the event for the local people of Hong Kong;
- (c) number of participants (including non-local visitors) in the event;
- (d) media coverage of the event both locally and outside Hong Kong;
- (e) special tourist packages developed; and
- (f) feedback obtained from participants and spectators as well as from key stakeholders including the participating teams and organisations, tourism and travel trade operators.

For most events, some of the deliverables and targets (see (a), (b) and (c) above) were set in measurable terms, but some (see (d), (e) and (f) above) were not.

2.14 Given that MEF events involve the use of public funds, they have to be justified on the basis of the above deliverables and targets. The Administration should establish a more robust mechanism to measure the effective implementation of the deliverables and the achievement of the targets. In its 2010 review, the ICAC commented that there was the risk of abuse by the organisers' staff when they recruited temporary staff for the approved events. To reduce the risk of abuse and as measures to prevent corruption, the ICAC recommended, among others, that the Secretariat should randomly verify the number of staff employed by the organisers

when making site visits. In this connection, the MEF Secretariat has required the organisers to keep proper books and records for inspections and to report the actual outcome in their post-event evaluation reports to the TC. Apart from conducting on-site inspections, the Secretariat staff also carried out document inspection checks for selected events. However, Audit found scope for improvement in that:

- (a) during the on-site inspections for events held in open area with free-flow pedestrians, although the Secretariat staff conducted headcounts on the number of staff engaged by the organisers, they did not randomly verify the staff employed for the events against any attendance records on the spot and did not conduct subsequent checks against the organisers' recruitment and payroll records;
- (b) while recognising that there may be practical constraints and operational difficulties in accurately counting the number of participants/attendees for an event held in open area with free-flow pedestrians, it is noted that the numbers of participants and non-local visitors are two important deliverables/targets to justify the granting of MEF funds. Audit noted that the organisers did not always state in their application forms their counting methods to be adopted and report the methods used in their post-event evaluation reports. During on-site inspections, the Secretariat staff did not always verify or make enquiries on the counting methods adopted by the organisers and how the latter allocated their counting staff; and
- (c) the document inspection checks conducted for selected events after receipt of the organisers' post-event reports mainly focused on income and expenditure of the events. In future, the Secretariat staff needs to give more emphasis, apart from checking the income and expenditure, on checking the validity of the deliverables and targets reported to have been achieved by the organisers after the events.

Inadequacies in the existing mechanism are further elaborated in paragraphs 2.15 to 2.30.

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Reported achievements not always verified

2.15 In April 2012, when seeking approval for funding commitment for the modified MEF, the CEDB informed the LegCo FC that since the inception of the MEF, the 16 MEF events approved as of March 2012 had achieved, among others, the following results:

- They had created a total of about 10 000 jobs during the events periods.
- They had attracted a total of over 900 000 participants, of which more than 170 000 were non-local visitors.

Prima facie, the 16 MEF events appeared to have produced encouraging results. Audit however found that the reported achievements had to be interpreted with the qualifications below.

Creation of 10 000 paid jobs by the MEF events

2.16 Although the 16 events were reported to have created a total of about 10 000 jobs during the events periods, it should be noted that most of the jobs created were extremely short term and temporary in nature, with many lasting for one to a few days only. The creation of such short term jobs would have little or no impact on the labour market, as pointed out by relevant B/Ds when they were consulted by the MEF Secretariat in assessing the applications.

2.17 As mentioned in paragraph 2.14(a), although the Secretariat staff conducted headcounts on the number of the organisers' staff present during on-site inspections, they did not randomly verify the number of paid staff employed for the events, nor did they carry out subsequent checks of the organisers' recruitment and payroll records. As a result, there could be a risk of over-reporting in the number of paid jobs created. An example of one event with inadequacies in the Secretariat's on-site inspection in monitoring the number of paid jobs created is shown below.

Example 1

1. Event C4 was the only MEF event held during the course of audit examination. It was a one-day event (involving MEF approved funding of \$1.5 million) held in a popular tourist shopping area in early 2014. In the funding agreement, the organiser undertook to create a minimum of 3 100 paid jobs for the local people of Hong Kong, including 3 000 performers of specified types.

2. On the event day, three MEF Secretariat staff conducted an on-site inspection, accompanied by two Audit staff (attending the event as observers). Audit noted the following:

- (a) the event was, prima facie, smoothly run and had been able to create a festive atmosphere;
- (b) during the event, Secretariat staff conducted a headcount of the number of the organiser's staff present at the time of their inspection along the parade route, and reported that about 2 650 performers and supporting staff participated in the event. The number however could cover both "paid" and "non-paid" performers/staff because the Secretariat staff had not made any attempt to verify the attendance records of the paid performers/staff;
- (c) nonetheless, Audit noted that many performers involved in specified shows on the event day were not professional ones, with many young children accompanied by parents/teachers and with some elderly people (see Photographs 1 and 2 taken by Audit in the kick-off ceremony waiting area — it can be seen that all the children, in uniforms provided by the organiser, had been dressed up for the show);

(to be continued)

Achievement of the MEF objectives

(Cont'd)

Photograph 1



Photograph 2



- (d) after completion of the event, on Audit's request through the Secretariat for the name list of the 3 000 "paid" performers involved in the show (see para. 1 above) together with the pay they each received/would receive, the organiser reported in late January 2014 that there were only some 1 850 performers (far less than the pledge of 3 000 "paid" performers set in the funding agreement);
- (e) based on the name list provided (which was not a complete one), Audit noted that at least 410 of the 1 850 performers were directly recruited from three primary schools and eight kindergartens. Such young school children could hardly be regarded as "paid" performers and should not be counted as "paid jobs created" by the event. In mid-March 2014, the TC informed the organiser that these young children should not be included in the number of "paid jobs created" by the event. In response, the organiser informed the TC that the event had only created 1 317 paid jobs for performers; and
- (f) the TC also informed Audit in late March 2014 that it would explore with the Labour Department to define the meaning of "paid jobs" in the funding agreement so as to avoid counting children as employees of the event.

Source: TC records and Audit site visit

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2.18 Audit noted that Event C4 in Example 1 was a repeated event and similar events (namely Events C1, C2 and C3) had been held by the organiser from 2011 to 2013. According to the funding agreements of these earlier events, the organiser had pledged to create some 1 000 to 3 100 paid jobs for each event, mainly relating to the employment of performers to participate in the show. Based on the post-event evaluation reports submitted by the organiser for these events, some 9 300 paid jobs were reported to have been created. The CEDB had included some 5 000 jobs created from Events C1 and C2 in the total of “10 000 paid jobs” reported to LegCo in April 2012 (see para. 2.15).

2.19 According to documentation and photographs taken for the three earlier events (Events C1, C2 and C3) as kept in the MEF’s records (see Photograph 3 taken as an example), Audit again found that many young children had participated in the show in these events. In response to Audit’s enquiries, in March 2014, the organiser informed the TC that the number of jobs created in the three events might have included young school children, but it could not provide the TC with the actual number involved. Given the circumstances, it is highly probable that the figure of some 5 000 jobs reported to LegCo had been overstated.

Photograph 3



Source: TC records

2.20 In relation to the above three events (Events C1, C2 and C3), Audit further found that the number of paid jobs reported to have been created was mainly based on self-declarations made by two service providers (which were associates of the organiser). Staff recruitment, attendance and payroll records with individual performers’ acknowledgement of receipt of payments were not available. Payments to these performers (including transportation fees for performing equipment) however accounted for some 30% to 50% of the total expenditures incurred in the

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three events. In response to Audit's enquiries, the organiser confirmed to the TC in March 2014 that individual performers' acknowledgement of receipt were not available.

2.21 Furthermore, Audit noted that in one of the three events, the organiser had invited non-local performing teams to participate in the show. There was however no evidence that the Secretariat had clarified with the organiser on whether these non-local performers had been counted as paid jobs created for local people of Hong Kong and whether their participation in the show had complied with the law of Hong Kong (e.g. Employment Ordinance (Cap. 57) and Immigration Ordinance (Cap. 115)).

Attracting over 900 000 participants, including 170 000 non-local visitors

2.22 For events with ticket income, the numbers of participants can be easily counted based on collection of ticket stubs. With the figure of 900 000 participants (including 170 000 non-local visitors) reported to LegCo in April 2012 (see para. 2.15), Audit noted that a large number of the reported figures were related to a few events which were held in open area (such as Tsim Sha Tsui) with free-flow pedestrians. However, the organisers were not required to inform or agree with the MEF Secretariat beforehand the counting methods adopted and the Secretariat seldom verified or raised queries on the counting methods or the results the organisers reported in their post-event evaluation reports. The number of non-local visitors was usually projected by the organisers based on the percentage of non-local visitors interviewed in their feedback surveys conducted.

2.23 Similar to the comments that the number of paid jobs created by MEF events would have little or no impact on the labour market (as mentioned in para. 2.16), relevant B/Ds and the HKTB (when consulted by the MEF Secretariat in assessing the applications) had commented that some of the events might not be able to bring in overseas visitors (who came to Hong Kong specifically for the events) or increase visitors' length of stay. They believed that the non-local visitors were mostly in-town visitors or passers-by. For a few events, they commented that the projected number of participants estimated might be high.

2.24 Audit has examined the reported numbers of participants for four events which were held in public places. These events lasted for one to three days each and the organisers reported that they each had attracted some 55 000 to 216 000 participants (including 10 000 to 54 000 non-local visitors), accounting for some half of the “900 000 participants” (or some 70% of the “170 000 non-local visitors”) reported to LegCo in April 2012 (see para. 2.15). According to the funding agreements, the organisers were not required to seek the TC’s approval for their methods used for counting the numbers of participants (and the projected numbers of non-local visitors). Counting plans were also not required to be submitted. After completion of the events, the organisers reported in their post-event evaluation reports the numbers of participants and non-local visitors attending the events, without providing documentation (e.g. counting plans and counting results by different days/places, etc.) to support the figures.

2.25 With Event C4 held during the course of audit examination (see Example 1 in para. 2.17), Audit staff attended as observers to the on-site inspection conducted in early 2014 by the MEF Secretariat staff. Audit observed that the Secretariat staff did not perform any checking on the counting procedures used by the organiser (e.g. how the counting had been performed and how the counting staff had been allocated). After completion of Event C4, at Audit’s request, the organiser informed the TC that there were some 65 000 participants in the event, but could not produce details of its calculations in arriving at the figure. In March 2014, the TC informed Audit that, in future, the organisers would be required to provide more scientific counting methods on the number of participants.

Developing special tourist packages

2.26 Because the MEF has the objective of raising the profile of Hong Kong internationally and attracting visitors to come to Hong Kong specifically for the events (see para. 1.5(a)), the funding agreements have generally laid down the requirement for the organisers to develop special tourist packages to attract visitors to the events. However, no measurable target was set in the agreements on the number of such tourist packages to be developed (see para. 2.13(e)).

2.27 With the exception of a few sports events, Audit noted that many of the other MEF events had not been too successful in attracting overseas visitors to come to Hong Kong specifically for the events. For nine of 18 events with the

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requirement of developing special tourist packages included in the funding agreements, the organisers reported in their post-event evaluation reports that no such packages could be developed. Either reasons for the failure were not given or reasons, such as “not enough time to sell tour packages” or “tours not materialised” were stated.

Audit comments

2.28 MEF events aim to raise the profile of Hong Kong internationally, attract visitors to come to Hong Kong, allow participation by the local public and increase employment opportunities (see paras. 1.5 and 2.2). Deliverables and targets, such as the numbers of paid jobs created, the numbers of participants and non-local visitors, and the numbers of special tourist packages developed (see para. 2.13(b), (c) and (e)), are set in the funding agreements. They should be systematically reviewed to ensure that they are achieved and revised, if necessary, to take on board the evolving economic situation.

2.29 The funding agreements have stipulated that failure in meeting the pledged targets may result in a sanction in the level of MEF funding (see para. 2.10). Among the 22 events completed, Audit noted that the TC had imposed financial sanctions on organisers of three events for their failure in meeting the pledged numbers of participants and non-local visitors for the events, but no sanction on organisers for failing to create the pledged number of paid jobs in a few events.

2.30 Given the various findings mentioned above, Audit considers that the TC should establish a robust mechanism to validate the deliverables and achievements reported by the organisers. For example, with the number of paid jobs created, the TC may consider conducting random checking of the figures against the employment contracts, payroll and attendance records kept by the organisers.

The need to identify new MEF events

2.31 In May 2009 when proposing the MEF to be set up, the Administration assured LegCo that the MEF would not be used to support “ongoing” events (i.e. events which had already been held for many years before the MEF was

introduced). Besides, funding for repeated applications (i.e. applications which had received MEF funding in previous years and would wish to receive support from the MEF again) would only be approved with a reduced level of funding support.

2.32 However, in April 2012, the CEDB informed the LegCo FC that the practice of reducing the funding support for repeated events would be removed and the Assessment Committee would have the discretion on the appropriate MEF funding amount for each repeated event, as long as the same event was found suitable for MEF support and its past performance was satisfactory. The proposal was approved by the LegCo FC.

2.33 Audit analysis of the 24 approved MEF events revealed that 18 events were ongoing and/or repeated events. To build their sustainability, these events were granted MEF funds on each occasion to, inter alia, organise additional activities which could enlarge their scale or expand their international profile. An example with repeated events held is shown below.

Example 2

1. Event D1 held in 2010 was an ongoing event which had already been held before the MEF was set up. Similar events (namely Events D2, D3 and D4) were held each year after Event D1, with Event D5 to be held in June 2014.

2. Additional activities or features were introduced in these ongoing/repeated events. They included:

- Event D1 was staged in Victoria Harbour (and not Shing Mun River in previous years), and had introduced live TV broadcasting;
- Event D2 held in 2011 had introduced a 10-passenger small dragon boat category to encourage overseas participation;

(to be continued)

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(Cont'd)

- Event D3 held in 2012 had scale expanded by organising additional races at the Olympic level in the sports of Dragon Boating. In particular, the duration of the event was extended from 3 to 7 days and the land venue was much larger than previous years; and
- Event D4 held in 2013 had introduced the 250-metre standard boat races to the international categories to attract overseas participation and had arranged additional performance during the event.

Source: TC records

2.34 However, Audit noted that since the inception of the MEF, only six brand new events had been held, but for three of them, financial sanctions had been imposed by the TC due to non-compliance with the funding conditions or unsatisfactory performance. Only one brand new event had been approved in the recent five rounds of applications (i.e. since mid-2011).

2.35 Audit notes that unless new events are approved in the future, the MEF will be supporting only a few repeated events. While repeating successful events would build up the local and possibly international recognition and the size of these events over time, it is also important for the MEF to add new and promising events to address the imbalance between new and repeated events. In order to effectively reinforce Hong Kong's image as the events capital of Asia and to maximise the effectiveness of the MEF, the TC should step up efforts to identify more new events.

Some MEF events also funded by other Government funding sources/schemes

2.36 In May 2009, the CEDB informed the LegCo FC that events already earmarked under other Government funding sources/schemes would not be considered for the MEF funding unless full justification was given to the satisfaction

of the Assessment Committee and the Controlling Officer to confirm that the additional funds sought would be deployed strictly to organise additional activities to broaden the scale of the event or raise its international profile.

2.37 Audit analysis however revealed that a few MEF events were also financially supported by other Government funding sources/schemes, with each source/scheme financing different expenditure items of the events (see Examples 3 and 4 below). Nonetheless, for each event, the Government's overall funding did not exceed 50% of the total cost.

Example 3

1. Event E1, held in 2010, had an estimated total cost of \$24.3 million. It was approved with the MEF funding of \$9 million. The MEF funding agreement had not defined the specific use of the MEF funding. In addition, the organiser obtained a cash subsidy of \$2 million from the Sports Subvention Scheme of the Leisure and Cultural Services Department (LCSD) to cover various expenditure items, including board and lodging, staff remuneration in respect of technical support services for matches (e.g. tournament referee, chief umpire and scoreboard operators).
2. Both the MEF Secretariat and the LCSD required the organiser to submit post-event evaluation reports and audited accounts for their examination. The event was eventually funded by the MEF for \$7.9 million and the Sports Subvention Scheme for \$1.4 million.
3. Subsequently, the LCSD ceased to provide any cash subsidy to a similar event held by the organiser in the following year, for which the MEF funding of \$5 million was approved.

Source: TC records

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Example 4

1. Event D3, held in 2012, had an estimated total cost of \$25 million. It was approved with the MEF funding of \$6.5 million. In addition, the organiser sought funding support of \$3 million for the event under the “M” Mark System of the HAB (Note).
2. According to the event budget, the MEF and “M” Mark System financed different expenditure items of Event D3. For example, the MEF funding was to cover the setting up of land venue, the employment of event managers and TV broadcasting whereas the “M” Mark System was to cover 50% of the event expenses for setting up the sea venue, manpower, collateral items and transportation for overseas teams, volunteers and equipment etc.
3. Both the MEF Secretariat and the HAB required the organiser to submit post-event evaluation reports and audited accounts for their examination. It transpired that Event D3 was eventually funded by the MEF for \$6.3 million and the “M” Mark System for \$2.4 million.

Note: The HAB launched the “M” Mark System in 2004 to help nurture more sustainable major sports events. “M” Mark status is awarded to recognised major sports events held in Hong Kong (e.g. the Hong Kong Marathon and the Hong Kong Sevens). Under the “M” Mark System, funding support and logistic support from relevant B/Ds are provided to help sports events evolve into regular, market-oriented and profitable events.

Source: TC records

2.38 As explained by the TC in March 2014, apart from obliging with the MEF ruling that the total amount of Government funding (including the MEF funding) should not exceed 50% of the total cost of the event, the Assessment Committee would normally not consider applications which have been provided with other Government funding unless full justifications were given. However, because many other Government funding sources usually have their own rules or restrictions or even limitation on the funding level, the MEF has become an additional funding source to events that look for an expanded scale despite that the event also received funding from other Government sources. The TC further mentioned that:

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- (a) the Assessment Committee had carefully considered the tourism merit of individual applications on a case-by-case basis and would only consider providing funding support to events with good tourism value; and
- (b) events with limited tourism merit but good cultural/sport or other values might not be granted the MEF funding.

2.39 While noting the views of the Assessment Committee and the TC, Audit considers that the financing of one major event by two or more B/Ds to meet different purposes will involve duplication of Government efforts in monitoring the same event, which may not be conducive to the efficient operation of the Government. The TC may wish to explore how it can work in closer collaboration with other B/Ds to avoid the duplication of Government efforts.

PART 3: ASSESSMENT OF APPLICATIONS

3.1 This PART examines the TC's assessment and examination of applications for MEF support.

Assessment Committee of the MEF

3.2 As mentioned in paragraph 1.6, an Assessment Committee of the MEF was set up in June 2009 to advise the Government on the administration of the Fund, including drawing up the guidelines and criteria for assessing the applications, considering applications, monitoring the progress of events supported by the MEF and evaluating their performance. Chaired by a non-official member, the Committee comprises six other non-official members and three official members.

3.3 The Assessment Committee holds meetings as and when necessary, as decided by the Chairman. When necessary, the Committee may transact its business by circulation of papers. Each matter put for voting at a Committee meeting is determined by a majority of the members present and the Chairman has a casting vote, in the case where votes are tied. Agenda and papers have to be issued to Committee members at least three days before meetings. Supplementary information and documents may be tabled at meetings. Where necessary, the Assessment Committee may:

- (a) invite an applicant for the Fund to present its proposal to the Committee, and provide clarifications and supplementary information relating to the proposal;
- (b) invite an applicant to arrange site visits or meetings for the Committee; and
- (c) invite representatives from relevant B/Ds or independent experts to attend a meeting to provide advice on an application.

Audit findings

- 3.4 The following audit issues are examined in this PART:
- (a) inadequacies in the governance of the Assessment Committee (para. 3.5);
 - (b) inadequacies in some event organisers' competence in organising MEF events (paras. 3.6 to 3.11); and
 - (c) comments/reservations made by relevant B/Ds not always followed up (paras. 3.12 to 3.14).

Inadequacies in the governance of the Assessment Committee

3.5 In general, the Assessment Committee has been set up with a sound governance structure. Audit has however found a few areas where the governance of the Committee can be improved:

- (a) *Members' attendance.* Up to January 2014, the Committee had held 14 meetings. Among the six non-official members (not including the Chairman), the attendance of two was particularly low, with one absent continuously for six meetings and another absent for four of the seven meetings since November 2011. The two members' attendance in all 14 meetings was 50% and 57% respectively. Given that members in the Assessment Committee represent different sectors (see para. 1.6), their low attendance may have deprived them of taking an active part in assessing the applications and the Government cannot always obtain their expert advice in the assessment and selection of events;
- (b) *Re-appointment of members.* The appointment of both the Chairman and all six non-official members of the Assessment Committee would all expire in June 2014, by which time the Chairman and five members would have served the Committee for five years. Whilst it is understood that the Committee is not subject to the "six-year rule" (which is applicable to many advisory and statutory bodies as defined by the HAB),

Assessment of applications

the CEDB may wish to work on identifying and appointing additional suitable members to ensure a reasonable distribution of workload and turnover of membership, given that the continuity of the Committee after June 2014 is important for ensuring the consistency of the assessment of the applications; and

- (c) *Assessment of applications.* The Assessment Committee has set five assessment criteria (see para. 1.8(a) to (e)) with different maximum marks for each criterion. The Committee has set the rule that an application will be eligible for MEF support if the average marks awarded by members present at the meeting for individual assessment criterion have reached the passing marks (which are set at 60% of the maximum marks for each criterion). Audit however noted that in the minutes of meetings, only the overall marks awarded to individual applications were recorded, but not the scores they obtained for individual criterion.

Regarding (a) above, the TC informed Audit in late March 2014 that it agreed with Audit's view that low attendance of some members of the Assessment Committee was not desirable. The Assessment Committee comprised members from various fields in the tourism and other related sectors (such as hotel, public relations, accounting, etc.). Some members therefore needed to travel extensively due to business needs and might not be available for meetings as often as desirable. That said, the TC assured Audit that those members who could not attend the meetings had often provided pertinent advice on the basis of their vast experience in relevant sectors, in writing prior to the meetings to facilitate the Assessment Committee's discussion.

Inadequacies in some event organisers' competence in organising MEF events

3.6 Organisers for two events had been disallowed to apply for MEF funds in future (see para. 2.10). Audit found the following inadequacies in the experience and expertise of these two organisers in organising MEF events.

Example 5

1. Event F was an MEF event held in 2010. The organiser for the event was an organisation newly set up. Basically, it was a small team of artists. As commented by the TC when assessing the technical feasibility of the organiser's application, the applicant could not demonstrate its ability to handle complicated projects involving many iconic artists and movie stars. The key personnel involved was only a Hong Kong-based painter and artist who had organised solo exhibitions, and he had not worked on a project of the scale proposed.
2. It transpired that the organiser was imposed 35% financial sanctions by the TC on its MEF funding because of the organiser's lack of experience in project management and arts administration, which had significantly affected the implementation of the event. The organiser had also failed to comply with some of the terms and conditions in the funding agreement.

Source: TC records

Example 6

1. Event A was an MEF event which was approved in December 2010, but held in late 2011. The organiser for this event indicated in its application for the MEF funding that it had only one senior management staff. It could not produce the audited accounts of similar events held in previous years. It further indicated that all members of the organisation worked on a voluntary basis in the past, and it would require recruiting temporary staff to work on production, administration, publicity, finance and accounting if Event A was to be organised.
2. It transpired that the organiser was imposed 40% financial sanctions by the TC on its MEF funding because the organiser failed to perform and deliver the event in compliance with the relevant terms and conditions stipulated in the agreement (see para. 2.10), such as failure in carrying out publicity work of the event to cover the Mainland and overseas markets.

Source: TC records

Assessment of applications

3.7 The ICAC commented in its 2010 review that:

- (a) although the TC had required the MEF applicants to submit, together with their applications, information on their background and organisation structure, these elements were not specifically included in the marking scheme; and
- (b) there was a concern that the organisers might not have the expertise and resources to properly manage mega arts, cultural and sports events, hence increasing the risk of misuse or abuse of funds by unscrupulous staff of the organisers.

3.8 To address the above concern and primarily to prevent corruption, the ICAC recommended that the TC should include in the marking scheme the background and governance structure of the applicants, their track records in organising similar events, and their human, financial and technical resources (see para. 2.11(c)). The recommendation was accepted by the TC which has included since December 2010 the applicants' "technical and project management capabilities" and "past performances" for assessing their technical feasibility when considering their applications (see para. 1.8).

3.9 The success of an MEF event very often hinges on the organiser's capability and experience in organising the event. The problem did not appear to have been entirely resolved even after the TC's implementation of the ICAC's anti-corruption recommendation of considering the organisers' background, governance structure and track records in its assessment of applications. This was because some organisers were of a small scale and lacked the experience and ability to host large-scale events. In April 2012, the Administration informed LegCo that because only local non-profit-making organisations were eligible for applying grants under the MEF, events so far hosted were generally quite small in scale and some of such organisations lacked the experience and ability to host very large-scale iconic events, and often had to struggle with the problem of inadequate financial and human resources and the challenge in managing the logistics of mega events.

3.10 Inadequacies also existed in the TC's assessment of the organisers' associates who had assumed key roles in organising the events. For example, because of the success of an earlier event held in 2011, the TC approved all

applications from the same organiser for similar events to be held from 2012 to 2014. The organiser for all four events was a preparatory committee of some 20 people. For the events held from 2011 to 2013, two key members of the preparatory committee were also members of the management of two major service providers for the events. Although they were not so named in the funding agreements and were not joint applicants in the application forms, they were named “Event Co-organisers” in all publicity documents for the events (including invitation cards, leaflets, posters and displays on stage platform). There was however no evidence that the MEF Secretariat had raised any enquiries with the organiser concerning the latter’s relationship with, and the capability of, the associates (Note 6). While there may not be anything uncommon about an organiser using its associates to assist in organising a cultural event, particularly when the number of such service providers is limited and the market is small, it is important that such relationships be declared and understood by the TC and the Assessment Committee when assessing the ability of the organiser and the extent of arm’s length dealings between the organiser and its associates.

3.11 Audit considers that the TC needs to request applicants to disclose their management teams and any associates who will be actively involved in organising the proposed events. The TC should also develop more specific guidelines to facilitate its staff in the conduct of the assessments more effectively.

Comments/reservations made by relevant B/Ds not always followed up

3.12 To ensure accurate cost budgets having been submitted by organisers, the MEF Secretariat would scrutinise the budgets, with input from relevant B/Ds, before proposing to the Assessment Committee on the MEF funding to be provided and before funding agreements are signed. In May 2009, the CEDB informed the LegCo FC that in assessing the MEF applications, the Assessment Committee should benefit from expertise of members in the relevant fields and comments from relevant B/Ds. It was also stated in the Guide to Application that in processing the applications, the Committee might invite assistance from independent experts of relevant fields.

Note 6: *In March 2014, the organiser informed the TC that the role of the two co-organisers could have been spotted by the MEF Secretariat from the records it submitted for the events, but the latter had not raised any enquiries.*

Assessment of applications

3.13 Audit noted that in practice, when processing the applications, the MEF Secretariat would seek comments from relevant B/Ds (including the HAB, the ISD, the Government Economist of the Financial Secretary's Office) and the HKTB, but had not consulted other outside organisations which might be expert in particular fields. Audit also noted one case (see Example 7) where the TC and the Assessment Committee had not been informed of the organisers' activities which had affected the attractiveness and attendance of the MEF event. In particular, comments received from B/Ds had not been adequately followed up by the Secretariat.

Example 7

1. Event G, with MEF approved funding of \$2.5 million for promoting the event both locally and outside Hong Kong, comprised a total of 45 shows of four local production performances over a period of three weeks.

2. In their application, the four joint organisers claimed that the four performances had been successfully performed locally and outside Hong Kong, but did not mention about any plans for re-performing these performances shortly. When processing the application, the TC and the HAB/LCSD commented that the "new" event was just merging and bundling together four local re-run productions which had been staged many times in the past, including 11 shows of one performance (Performance A) which had been staged in LCSD venue one month before the organisers submitted their application. In the application submitted, the 45 shows in Event G included 10 shows of Performance A. The HAB/LCSD also commented that the budgeted marketing expenses of \$2.5 million for Event G appeared high. It however transpired that the MEF Secretariat did not set any provisions in the funding agreement to govern the re-performance of the four MEF performances on dates in close proximity to the MEF event period, which might affect the attractiveness and attendance of the MEF shows.

(to be continued)

(Cont'd)

3. From information published on the organisers' websites, Audit found that after the submission of their application in late July 2009, the organisers had staged three of the four performances in Hong Kong and other places on dates in close proximity to the MEF event period. In particular, Audit noted that six shows of Performance A had been staged in Hong Kong (in the same venue as the MEF event), and four shows in Guangdong Province of the Mainland, before February 2010 when the MEF funding agreement was signed (see the timetable for the repeated shows of Performance A at Appendix B). In April 2010, 10 shows for Performance A were staged under Event G. The TC and the Assessment Committee had not been informed of the repeated re-performance of the shows by the organisers in their application for the MEF funding, before signing of the funding agreement or before the staging of the MEF shows.

4. Performance A was once again re-performed in Macau on the second day after the funding agreement was signed, and three more times in Canada two days after the MEF shows for Performance A in Hong Kong were staged (Note). Although the organisers reported in their post-event evaluation report for Event G that \$0.91 million had been spent on promotion of Performance A locally and outside Hong Kong, Audit noted that the ticket income for Performance A under Event G was only \$0.87 million (which was even less than the promotion expenses) and the average number of audience for Performance A in the 10 MEF shows was not at all higher than that for the six shows staged by the organisers before the MEF event period in the same venue (see para. 3 above).

5. The organisers emphasised in their application that they would conduct extensive publicity to attract non-local visitors to the MEF event, particularly targeting visitors from Macau, the Mainland and Canada, etc. Although the funding agreement has also stipulated that the organisers should promote tourist packages in Macau and the Mainland, it transpired that they had spent little moneys in promoting the MEF event in Macau and the Mainland, but much was spent in Canada (see para. 4.14(a)). Apparently, the MEF Secretariat had not taken any follow-up action on this.

(to be continued)

(Cont'd)

6. Finally, the organisers failed to meet some important targets set in the funding agreement, such as attracting the pledged numbers of participants and non-local visitors to the MEF event, with a significant shortfall by 67% for visitors participating in the event (actual of 3 300 visitors versus the pledged number of 10 000 visitors). In the light of the organisers' less than satisfactory performance, the Controlling Officer of the MEF accepted the Assessment Committee's recommendation to impose a financial sanction against the organisers. However, in determining the financial sanction, the Assessment Committee and the TC had not been informed of the re-performance of the shows by the organisers on dates in close proximity to the MEF event period.

Note: The MEF shows for Performance A had been rescheduled by the organisers in such a way that it had become the last performance to be staged during the MEF event period. There was no evidence that the TC had been informed. Strictly speaking, approval from the TC for such rescheduling should have been required.

Source: TC records and Audit research

3.14 Audit considers that there is scope for improvement in communicating to applicants that activities organised by them in close proximity to the MEF event should be reported or disclosed in their applications. The TC also needs to take more proactive follow-up of B/Ds' comments.

PART 4: MONITORING AND EVALUATION OF EVENTS

4.1 This PART examines the TC's monitoring and evaluation of the MEF events.

Monitoring and evaluation mechanism

4.2 When setting up the MEF in 2009, the Administration had assured LegCo that there would be safeguards to ensure that the public moneys would be prudently disbursed and administered. When seeking for the new commitment of \$150 million for the modified MEF in April 2012, the Administration again informed LegCo that various control measures had been put in place to ensure proper monitoring of the use of the MEF and the progress of the events, including the requirement for the organisers to state the events' deliverables, key milestones, targets and methods for measuring the events' performance in their applications, the submission of post-event reports and audited accounts, and the conduct of on-site inspections by the Government and Assessment Committee representatives. More details of the control measures are shown at Appendix C.

Audit findings

4.3 The following audit issues are examined in this PART:

- (a) execution of funding agreements (paras. 4.4 to 4.6);
- (b) monitoring of event implementation (paras. 4.7 to 4.23); and
- (c) disbursement of funds (paras. 4.24 to 4.27).

Execution of funding agreements

4.4 Funding agreements had been signed for 23 MEF events. Audit analysis of the MEF records revealed that for 13 of the 23 events, the funding agreements were signed by the TC with the organisers in less than one month before the event

Monitoring and evaluation of events

dates. In four extreme cases, the agreements were executed just a few days before the event dates, as follows:

Event	Date of application	Date of signing funding agreement (a)	Start date of event (b)	No. of days between agreement signed and the event started (c) = (b) – (a)
I	22/7/2009	9/11/2009	13/11/2009	4
D1	8/4/2010	16/7/2010	23/7/2010	7
D3	22/9/2011	27/6/2012	2/7/2012	5
H	5/7/2012	8/11/2012	15/11/2012	7

4.5 In the above four extreme cases, the funding agreements were executed quite late because the organisers had also taken a long time to finalise their operation plans and event budgets which formed part of the funding agreements. Although the MEF Secretariat had taken steps in a proactive manner, without waiting for the funding agreements to be finalised, to monitor the implementation of the events and remind the organisers to observe the terms and conditions of the yet-to-be-executed funding agreements, the arrangement can be improved.

4.6 Because of the late execution of the funding agreements, some of the control measures set out in the funding agreements could not be effectively enforced. For example, the funding agreements required the grantees to submit a progress report for every 6-month period from the commencement date (i.e. from the agreement date) to the expiry or termination of the agreement. However, Audit found that for all 23 events held as of mid-February 2014, no such progress reports had been submitted, apparently because the agreement date was too close to the event date.

Monitoring of event implementation

Conflicts of interest

4.7 Related party transactions often require closer attention because it is more difficult to ascertain whether they are conducted on normal commercial terms. Adequate safeguards are needed to prevent abuses. Since the outset of the MEF, the TC has stipulated in the Guide to Application and funding agreements that the organisers (including their staff and agents) should:

- (a) declare any conflicts of interest in relation to procurement/tendering and staff recruitment;
- (b) ensure that all purchases of goods, services and equipment of any value in relation to the event are made only from suppliers who are not associates or associated persons of the organisers, unless the Government agrees otherwise; and
- (c) set up a mechanism to mitigate any such declared conflicts.

4.8 Audit examination of the MEF records however revealed that:

- (a) in some of the MEF events, related agents were employed or major services were procured from associated service providers; and
- (b) the organisers in most of the events in (a) above had not declared their relationship with the related parties and had not notified the TC in writing of any related party procurements or staff recruitments they had made.

4.9 Nonetheless, the relationship between the organisers and the agents they employed/service providers for the events could have been spotted from scrutiny of the information provided in the organisers' applications, or from examination of the organisers' books and records kept for the events. There was however no evidence that the MEF Secretariat had requested clarifications and/or conducted additional checks on the organisers' procurements and recruitments. An example of two MEF events with a related agent having been employed by the organiser is shown below.

Example 8

1. In relation to Events E1 and E2, based on company search, Audit found that the agent (a company) employed by the organiser was related to the latter in that the shareholders of the agent were also ex-officio members of the organiser's executive committee. Services of \$2.9 million and \$2.7 million had been provided by the agent in the two events, representing 12% of the total expenditures incurred.

2. However, the organiser had neither made any declarations of the relationship nor sought the Government's permissions for procurements from the related agent. In Event E1, Audit noted that the organiser had made an unbudgeted bonus payment of \$0.2 million to the agent. With the bonus payment, the expenditure budget for the event had been exceeded, yet the MEF Secretariat did not raise any queries.

Source: TC records and Audit research

4.10 Audit further noted that with the exception of one MEF event, no related party disclosure was reported in the audited accounts submitted by the organisers to the MEF Secretariat, even though Audit could identify such transactions from the MEF records. However, as mentioned earlier, an organiser may need to use associates to assist in organising an event, which may be vital for the success of the event. It is therefore important that such relationships between the organisers and their associates should be declared and understood by the TC and the Assessment Committee.

Procurement and staff recruitment

4.11 In its 2010 review, the ICAC pointed out that there was the risk of abuse by the organisers' staff when they made procurement or recruited temporary staff for the approved events, and there were then inadequate measures to prevent the organisers from using falsified purchasing and payroll records. The ICAC recommended the MEF Secretariat, as measures to prevent corruption, to:

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- (a) randomly verify the number of staff employed by the organisers when making site inspections (see para. 2.14); and
- (b) require the organisers to establish a two-tier vetting and approval system so that recruitment of key personnel or award of major goods or service contracts would be subjected to enhanced checks and balance.

With the endorsement of the Assessment Committee, the TC has suitably amended relevant MEF documents, including the Guide to Application, which have become effective since December 2010.

4.12 Since the ICAC's review, the MEF Secretariat has provided all MEF event organisers with copies of the ICAC Best Practice Checklists on procurement and staff recruitment, and laid down in the funding agreements that the organisers shall establish a two-tier approval system for the recruitment of key personnel/staff and the award of major goods, services and equipment contracts in procurement/tendering exercises conducted for the events. In addition, the funding agreements have contained the following provisions in relation to procurement and staff recruitment for the organisers to follow:

- (a) they should exercise the utmost prudence in procurement of goods, services and equipment, and ensure that all purchases of all goods, services and equipment of any value are made on an open, unbiased, fair and competitive basis, and only from suppliers who are not associates or associated persons of the organisers, unless the Government agrees otherwise;
- (b) they should exercise the utmost prudence in procurement of staff and should ensure that the recruitments of staff for the purpose of the project are carried out in an open, unbiased, fair and competitive manner;
- (c) they should set up and operate a proper procurement/tendering and stores management system for the project with sufficient checks and control and in accordance with the principles of public accountability and value for money, transparency, openness and fair competition; and
- (d) they should seek the ICAC's assistance in adopting the best practices stated in the ICAC's "Strengthening Integrity and Accountability —

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Grantee's Guidebook" and draw up a Code of Conduct for compliance by the organisers' directors and employees, and to ensure proper corruption prevention safeguards were incorporated into their procurement and staff recruitment procedures.

4.13 However, in Audit's view, the inclusion of the above provisions in the funding agreements alone may not have provided adequate assurance that major procurements and recruitments made by the organisers have complied with the open, fair and competitive principles. The MEF Secretariat needs to take measures to ensure that the organisers have set up proper procurement/tendering and stores management systems, and step up its sample checks on major procurements or payroll records after the events were held. In particular, there is a need for the Secretariat to step up its checking and controls over the operation of the MEF events in view of the suspected irregularities found in paragraph 4.14.

Suspected irregularities identified by Audit

4.14 Audit examination of the MEF records for selected events has revealed the following suspected irregularities in relation to event procurements, staff recruitments and other income and expenditure items:

Suspected improper charging of expenditures in Event G (see (a) and (b))

- (a) MEF funding of \$2.5 million was granted solely for publicity of Event G which involved a series of shows of four local re-run performances in Cantonese and was held in 2010 (see Example 7 in para. 3.13). When processing the application, the HAB/LCSD commented that the budgeted marketing expenses of \$2.5 million for Event G (representing 70% of the budgeted production cost) appeared high. Audit found that one of the four performances in Event G, Performance A, was then re-performed in Macau two months before the MEF shows in Hong Kong and three more times in Canada two days after the MEF shows were over (see para. 4 in Example 7). As such, the risk of improperly charging some of the organisers' advertising and promotion expenses for the same performance in other shows against the MEF funding is high. With the promotion budget of \$2.5 million, funded by the MEF, for, inter alia, developing special tourist packages and promoting such packages in the Mainland,

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Macau and the Asia Pacific region (which was commented by the HAB/LCSD as high), Audit found that the organisers had subsequently spent \$2.7 million on event promotion and noted the following:

Overseas TV advertisements (actual: \$240,000)

- (i) almost all expenditures were spent on TV promotion in Canada and solely for Performance A, instead of all four MEF performances. As mentioned in (a) above, three shows of Performance A were staged in Canada two days after the MEF shows in Hong Kong;
- (ii) according to the funding agreement, the organisers should, after an MEF event has been held, submit a Publicity Report which keeps all the publicity materials and media coverage summary, both local and non-local, in relation to and arising from the event. However, the organisers for Event G made no reference to any of the TV advertisements in Canada in their Publicity Report submitted. Based on the MEF records, there was no evidence that such TV advertisements had been sent to the ISD for prior approval in accordance with the funding agreement;
- (iii) for such reported expenditures, a payment of some \$92,000 was not properly supported by any official invoice. The receipt in support of the payment was not an official one because it did not bear the customer name and there was no description of the service provided (such as the nature, duration and period of the advertisements). There was no authorised signature and no official company chop. Another payment of \$32,970 for promotion in North America for all four performances was not supported by invoice or official receipt, but only by a bank exchange memo for purchase of Canadian dollars;

Production of TV trailers (actual: \$470,000)

- (iv) \$460,000 had been spent on the production of trailers (by a Hong Kong company) in Cantonese, Putonghua and English versions. The MEF Secretariat had not clarified whether the trailers so produced were used solely for the MEF shows or in both the MEF

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shows and other shows staged by the organisers on dates in close proximity to the MEF event. Furthermore, Audit had made a request for a copy of the trailers but, as of late March 2014, the Secretariat was still following up with the organisers;

- (v) similar to (ii) above, there was no evidence that the organisers had sent copies of the trailers to the ISD for approval, in accordance with the funding agreement;
- (vi) service procurement by the organisers for the production of the trailers was not supported by quotations; and

Printing of promotion materials (actual: \$387,000)

- (vii) against a budget of \$200,000 for the printing of promotion materials (e.g. leaflet and programme booklet) in the funding agreement, the organisers spent \$387,000 on such printing. As explained by the organisers in their post-event evaluation report, the increase in printing cost was due to printing additional promotion materials and using higher quality of printing materials. There was no evidence that the Secretariat had raised any queries on whether the additional promotion materials were solely used for the MEF shows. Although commercial advertisements (e.g. advertisements from airline/jewellery companies) were published on the printed promotion materials, no income from this source was recorded in the audited accounts;
- (b) relevant B/Ds commented, when assessing the application, that it was unnecessary to purchase new equipment and incur various expenditures on design, such as stage design, costume design, lighting, lyric writing (as the four performances were re-run productions). Their comments were made without the knowledge that the organisers would stage the performances many times shortly before and after the MEF shows. It transpired that such costs had been incurred. Event G had subsequently incurred a deficit of \$2.3 million (net of MEF funding), including some \$0.9 million for Performance A;

Regarding (a) and (b) above, the TC informed Audit in late March 2014 that a financial sanction had been imposed against the organisers due to their failure in meeting some important targets set in the funding agreement (see para. 6 in Example 7 in PART 3). Although the MEF Secretariat is taking follow-up action on the above findings with the organisers of Event G, the latter have recently explained to the TC that meanwhile they have no time to check their records due to their very limited manpower and can only provide feedback in late June 2014 the earliest;

Procurement and staff recruitment (see (c) to (e))

- (c) ***Procurements and recruitments with related parties, but without Government permission.*** Taking the three one-day events held from 2011 to 2013 (Events C1, C2 and C3 mentioned in paras. 2.18 to 2.21) as examples, the majority of the services, including the recruitment of performers, were procured from two associates of the organiser which together had been paid \$1.5 million, \$1 million and \$1.4 million, representing 48%, 36% and 44% of the total expenditures incurred for the three events respectively. Audit found that quotations, invoices, staff recruitment and payroll records with performers' acknowledgement of receipt were not available to support the procurements and recruitments. The organiser had neither made any declarations on conflict of interests nor sought permissions from the TC for procurements from associated service providers in accordance with the funding agreements;
- (d) ***Overpayment made to an organiser.*** Audit examination of MEF records revealed that in one event, the organiser had been overpaid \$227,000. The MEF Secretariat was not aware of the overpayment in its checking of the organiser's books and records. In January 2014, Audit informed the Secretariat about the overpayment and the Secretariat recovered the overpayment from the organiser in February 2014;
- (e) ***MEF funding used for financing the publicity costs of commercial sponsors.*** In one event, the MEF had funded broadcasting fee of \$1.6 million to the organiser, including a payment of \$0.1 million for a commercial sponsor's product placement in the TV programme, which should not have been borne by the MEF. Similarly, in another event, the MEF had funded broadcasting fee of \$1.8 million, again including a

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payment of \$0.2 million for using the name of a commercial sponsor as the event title, instead of the event name as stipulated in the funding agreement. It is again not appropriate to use the MEF funding to finance the publicity costs for the commercial sponsors;

Achievement of key deliverables in the funding agreement (see (f))

- (f) as one key deliverable for one event held in early 2013, the organiser was required to perform one activity to be awarded a record of the Guinness World Record. After completion of the event, the MEF Secretariat reported to the Assessment Committee that the organiser had successfully completed its Guinness record-breaking attempt. The final payment of the MEF approved funding of \$1.4 million for the event (representing 43% of the total event costs) was released in mid-2013. On Audit's enquiries in February 2014, the organiser informed the Secretariat that its application for the Guinness record-breaking was still in progress (more than one year after the record-breaking attempt). The Secretariat may wish to follow up;

Reporting of event income and disposal of unspent event balance (see (g) and (h))

- (g) ***Suspected omission of reporting income from certain event activities.*** For one event, the actual income from event activities of \$161,000 as reported in the audited accounts was far below the budget of \$700,000. There were indications that income generated from some event activities had not been taken into account, and the reported income in the audited accounts might have been understated. For example, according to media reports, about 2 000 tickets (priced at \$300 each) for one event activity had been sold out. There was however no evidence showing that the MEF Secretariat had followed up with the organiser. In March 2014, the organiser explained to the TC that no income for the event activity was reported in the post-event evaluation report because the activity had been outsourced to be administered by a third party and only the net amount (deficit) was recorded. The TC concurred that the above practice might not be desirable from the accounting angle; and

- (h) ***Improper refund of unspent event balance to sponsor.*** For one event, the organiser received a sponsorship of \$0.8 million from one sponsor. Because the event had an unspent balance of \$0.28 million, the organiser refunded \$0.28 million to the sponsor. In accordance with the funding agreement, the organiser should have refunded the unspent event balance of \$0.28 million to the Government. In March 2014, the organiser explained to the TC that the sponsor had committed to use its sponsorship to make up for any deficit of the event and, with an unspent event balance of \$0.28 million, it refunded the amount to the sponsor. The TC informed Audit in late March 2014 that in future, it will state explicitly in the funding agreement that the organiser must notify the TC in writing and seek its prior consent, should there be any special arrangement for returning sponsorships to commercial sponsors.

4.15 Given that public funds are involved, the audit findings reported in paragraph 4.14 suggest that there is an urgent need for the TC to step up its communication with event applicants and organisers, and step up its checking and controls over the operation of the MEF events. Audit considers that the TC needs to make more vigorous efforts in this regard, given that the implementation of Tier 1 events will involve MEF funding of significant amounts and may involve event operation by commercial organisations abroad.

Monitoring of ticket distribution for MEF events

4.16 Audit found that the TC had generally not set any conditions in the funding agreements to govern the distribution of tickets. For example, with Event H which was a four-day event held in 2012 and involving MEF approved funding of \$15 million (representing 31% of the total event cost), the TC did not stipulate in the funding agreement the number or extent of paid or complimentary tickets available to general public and the number of tickets to be bundled for sales of special tourist packages. As it transpired:

- (a) 93% of Event H tickets (23 000 tickets) were issued as free tickets by the organiser to various parties, including the venue provider, sponsors and the organiser itself, and only 7% (1 500 tickets) were sold to the general public; and
- (b) no special tourist packages were developed for Event H.

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The MEF Secretariat did not make any enquiries on the distribution of tickets for the event until Audit made such an enquiry in early 2014. The organiser was also not required to provide any information on the distribution of tickets in its post-event evaluation report.

4.17 On the other hand, Audit found that in another event (Event J) held in 2013, the MEF had funded \$8 million for the event (some 25% of the total event cost). The funding agreement has provided for the organiser to reserve 4 000 tickets for sale to overseas visitors direct, another 4 000 tickets for overseas promotion by the HKTB and at least 18 000 tickets for sale to the public. Audit considers that it is a good practice to set funding conditions to govern the distribution of tickets and it should be adopted in all future fee-charging MEF events.

Organisation of Event J

4.18 The MEF financed the organiser of Event J with \$8 million (see para. 4.17) for holding a football match in Hong Kong Stadium in late July 2013. It was regarded as a signature event as the organiser had invited a famous football team to come and play in an exhibition match in Hong Kong. However, owing to the poor condition of the Stadium turf pitch, Event J received some negative publicity.

4.19 Event J revealed the following areas that require follow-up:

- (a) ***Enforcement of funding condition.*** According to the funding agreement which was executed in January 2013, the organiser undertook that no similar matches would be held by the organiser/team in the Southern China and “nearby South East Asian countries” during the 2013 tour. However, the team had held a match in Thailand (which is in South East Asia) during its 2013 tour. Even though the MEF Secretariat had been informed of the match in Thailand, yet because the funding agreement had not defined clearly the term “nearby South East Asian countries”, the funding condition of requiring the organiser/team not to hold similar matches in “nearby” places was difficult to enforce;
- (b) ***Venue management.*** After the event, the LCSD which managed the Stadium immediately reviewed the pitch problem of the venue. It was considered that various factors had led to the undesirable pitch condition

for the football match, including the state of the turf pitch, the prolonged adverse weather conditions (continual heavy rainfall in July 2013) and the packed event schedule before the match (with four other matches held in the week before Event J was held). On the day after the match, the LCSD announced that it would undertake a comprehensive review of the turf maintenance and management issues of the Stadium, and formulate measures to be taken in the short, medium and long terms to address the issues concerned; and

- (c) ***Concrete contingency plan.*** The organiser had recognised the risk of bad weather in its application submitted in July 2012, and the HAB when consulted by the TC in assessing the application had also raised its concerns on the bad weather during summer in Hong Kong and on the absence of a concrete contingency plan having been submitted by the applicant. However, there is no evidence that the MEF Secretariat had adequately followed up to ensure that the organiser had properly prepared a contingency plan to address the risk. Fortuitously, the weather during the football match day was fine.

In late March 2014, the Administration informed Audit that the Assessment Committee and the TC had considered that Event J would be attractive to both Hong Kong residents and tourists, but had recognised that it would be unrealistic to request the famous football Team to make a trip specifically to Hong Kong. The MEF Secretariat had therefore been instructed to ensure that the Team concerned would not be playing a match in a city in the close neighbourhood which might affect the attractiveness of the match in Hong Kong. As regards (c) above, the Assessment Committee and the TC noted the risk of a football match in the summer season which could be affected by weather, but recognised that it would not be easy to draw up a viable contingency plan without considerably compromising the scale of the event or increasing the cost until an all-weather stadium is available in Hong Kong.

MEF funding not used for specified purposes

4.20 As mentioned earlier, it is often stipulated in the funding agreement that the Government funding should be used for specific purposes, such as using the MEF fund to secure publicity or to enrich the content of the event to boost the tourist attendance. Audit has however found that for a few events, the MEF funds were not used for the specified purposes. Example 9 is shown for illustration.

Monitoring and evaluation of events

Example 9

1. According to the funding agreement of Event D4, the joint organisers should only use the MEF funding (\$5.5 million — Note) for the following three purposes:

- (a) strengthening the overseas participation of the event;
- (b) further enhancing the publicity of the event outside Hong Kong; and
- (c) attracting more visitors to Hong Kong for the event.

2. However, according to the organisers' budget, which formed part of the funding agreement, the MEF funding would be used to cover the following expenditure items:

Type of expenditures	Amount (\$ million)
Venue setup	3.2
Equipment rentals	2.0
Cleaning service	0.1
Others	0.2
Total	5.5

It would appear that the MEF funding had been used for expenditure incurred in staging the event, rather than overseas publicity, which cannot be easily associated with the specified purposes in the funding agreement (see para. 1 above).

3. In the event, the organisers were funded by the MEF for the specified expenditure items in accordance with the budget.

Note: Event D4 was approved with MEF funding of \$5.3 million plus a reserved balance of \$0.2 million, being operating surplus generated from a similar event held in the previous year and allowed by the TC to be retained by the organisers for organising the same event in 2013.

Source: TC records

Enforcing the acknowledgement requirements

4.21 According to the funding agreements, organisers are required to feature prominently the acknowledgement of the Government's support on all publicity materials for the event. The acknowledgement must have dominant presence at the event venues and other related locations. Effective from May 2012, written approval from both the ISD and the MEF Secretariat must be obtained for information on all advertising, publicity and sponsor displays at event venues. Audit has however found that, although approvals from the ISD were usually obtained, approvals from the MEF Secretariat had not been sought and, in at least three events, there is scope for improvement in displaying the acknowledgement of the Government's support.

Desirability of conducting a debriefing session shortly after an event has been held

4.22 In accordance with the funding agreement, the organiser is required to submit post-event reports and audited accounts within four months after the completion of the event. With Event J (see paras. 4.18 and 4.19) as an example, although the football match had been held in as early as July 2013, the organiser was allowed to submit its post-event evaluation report and audited accounts by the end of January 2014 which was six months after the event (with two months' extension for submission allowed by the TC).

4.23 Given that post-event reports and audited accounts are only available months after an event has been held, the TC should consider holding a debriefing meeting, say, within a month after an event, with the organiser to assess the results of the event and to draw lessons to be learned from the event.

Disbursement of funds

4.24 According to the Guide to Application, the Government will only disburse the MEF funding after the funding agreements have been duly executed. The MEF funding may be paid by instalments on the satisfactory performance of appropriate milestones by the grantee. The final payment may be effected upon:

- (a) satisfactory completion of the event;

Monitoring and evaluation of events

- (b) the submission of the event’s evaluation report, publicity report, the survey report and audited accounts to the satisfaction of the Assessment Committee and the Controlling Officer; and
- (c) the grantee’s full compliance with all its obligations and duties under the funding agreement.

Disbursement of funds not in accordance with pre-set milestones

4.25 In June 2009, shortly after the inception of the MEF, the Assessment Committee endorsed that disbursement of funds would be made by phases “in accordance with business plan, budget and cash flow requirement of the successful event, subject to fulfilment of pre-set and clearly defined milestones/targets acceptable to the Assessment Committee.”

4.26 Audit however found that, instead of disbursing funds in accordance with the pre-set milestones of the events, payments were made to the organisers in all 22 completed MEF events based on the same payment schedule, i.e. 50% upon the execution of the funding agreements and the remaining 50% after the successful completion of the events and the submission of post-event reports and audited accounts to the satisfaction of the Assessment Committee and the Controlling Officer.

4.27 Given the variations in the scope and nature of the MEF events, Audit considers that the TC needs to determine the payment schedule on the basis of individual events. Whilst the standard payment schedule of paying 50% after the execution of the funding agreement and the remaining 50% after completion of the event and submission of post-event reports and audited accounts may generally be acceptable in the case of Tier 2 events, the TC needs to work out a proper payment schedule for individual Tier 1 events in future.

PART 5: WAY FORWARD

5.1 This PART examines the more recent development of the MEF and challenges ahead, and makes audit recommendations on the way forward.

Need to capitalise on benefits brought from mega events

5.2 Mega events not only add colour and vibrancy to Hong Kong, but also enrich visitors' experiences. Spectacular mega events will attract visitors to make a special trip to Hong Kong, which will in turn fuel the growth of such tourism-related sectors such as hotel, air transport, catering and retail in Hong Kong, and create more jobs. The successful staging of mega events can attract overseas media coverage that helps burnish Hong Kong's image as an international metropolis and reinforce its status as the events capital of Asia. The introduction of the MEF has provided opportunities to bring such mega events to Hong Kong and to capitalise on such opportunities.

Modified MEF

5.3 Based on the experience gained from the first three years of the MEF operation and the result of a review conducted in 2011, the Administration came up with a proposed modified MEF which was approved by the LegCo FC in April 2012 and launched in May 2012. As pointed out in paragraph 2.4, the modified MEF involves two tiers, namely:

- (a) **Tier 1.** It aims to provide financial incentive to attract new or established high profile mega events to Hong Kong to reinforce Hong Kong's image as the events capital of Asia. These events may be owned and/or operated by private event management companies or professional organisations established outside Hong Kong. Through the introduction of Tier 1, the CEDB hopes to attract events to Hong Kong with the objectives of attracting more tourists and enhancing the city's international recognition; and

Way forward

- (b) **Tier 2.** It is essentially an enhanced version of the previous MEF system. Tier 2 aims to provide funding support to local non-profit-making organisations to host events which have the potential to become mega events in Hong Kong, especially those activities which can showcase traditional Chinese culture and local heritage. All locally registered non-profit-making bodies are eligible to apply for MEF funding support under Tier 2. Tier 2 applications are assessed based on the broad principles and assessment criteria as described in paragraphs 1.5 and 1.8.

Audit findings

5.4 The following audit issues are examined in this PART:

- (a) challenges ahead in the implementation of the modified MEF (paras. 5.5 to 5.12); and
- (b) the need to define key performance targets to measure the effectiveness of the modified MEF (paras. 5.13 to 5.15).

Challenges ahead in the implementation of the modified MEF

5.5 In April 2012, the CEDB informed the LegCo FC that, to take forward the implementation of Tier 1, the Administration would:

- (a) engage an independent consultant to conduct a comprehensive survey to identify a list of potential Tier 1 events to be introduced to Hong Kong; and
- (b) after consideration by the Assessment Committee and obtaining in-principle approval from the Controlling Officer, approach the relevant owners of the identified events according to the agreed priority to explore whether they are interested in bringing these events to Hong Kong. There would then be a negotiation process between the Government and the event owners on the terms and conditions. Based on the negotiation results, the organisers would be invited to submit formal MEF applications.

On the recommendation of the Assessment Committee, the Controlling Officer would be the authority to grant approval. If approved, the Government would enter into funding agreements with the organisers and other relevant parties as appropriate.

5.6 The CEDB also informed the LegCo FC in April 2012 that:

- (a) the existing monitoring mechanism should apply to both Tier 1 and Tier 2 events in future. For Tier 1 events, the TC would consult the ICAC to develop more stringent monitoring and control measures from the corruption prevention angle; and
- (b) the allocation of \$150 million would be able to support the modified MEF to operate for about five years up to March 2017. The Administration expected that under the modified MEF, the numbers of applications and MEF events would increase. To ensure proper control and monitoring, the Administration would enhance the manpower in the MEF Secretariat to cope with the increased workload.

***Employment of a consultant to conduct a survey
on potential Tier 1 events***

5.7 A consultant was appointed in September 2012 at a cost of \$0.6 million to conduct a comprehensive survey to identify a list of potential Tier 1 events to be introduced to Hong Kong. Following the Government's acceptance of the consultant's report, the consultant was required to provide service for a continuing period of 12 months (which would lapse by May 2014) to assist the Government in liaising with the organisers/owners of the recommended events. The Government would however take the lead in inviting the organisers to host the events in Hong Kong (see para. 2.4).

5.8 The consultant's report was accepted by the Assessment Committee in May 2013. The Committee held a brainstorming session in June 2013 in which one event, "Event X", was identified for immediate follow-up action, including approaching the organiser with a view to bringing the event to Hong Kong under MEF Tier 1.

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More recent development

5.9 However, it transpired that Event X would not be hosted in Hong Kong in 2014. In response to an enquiry from one LegCo Member, the CEDB informed LegCo in January 2014 that:

- (a) the event organiser was once interested in staging Event X in Hong Kong in November 2014. The Government also supported the proposal in principle;
- (b) the TC could however not reach an agreement with the organiser on the design of the racetrack and related issues within the extremely limited timeframe; and
- (c) the TC would keep in close contact with the organiser to explore actively the optimal solutions to the engineering works and other issues relating to the race.

5.10 As of March 2014, the following position stands:

- (a) the TC had identified two potential Tier 1 events for action;
- (b) since April 2012, usage of the MEF and the number of MEF events approved had been decreasing (see para. 2.8); and
- (c) actual grants made by the modified MEF in 2012-13 and 2013-14 (up to January 2014) were only \$17 million and \$15 million respectively, falling far short of the estimated \$25 million and \$35 million as indicated in the LegCo FC paper.

In March 2014, the TC informed Audit that, given that MEF funding was limited and was designated for use of both Tier 1 and Tier 2 events, the TC and the Assessment Committee aimed to identify and focus on one or two mega events with real potential to be introduced to Hong Kong, and considered it not practical to

approach a list of potential event organisers at once. They are adopting a step-by-step approach to take forward the Tier 1 scheme, and meanwhile, follow-up actions are taken on two events which may be introduced to Hong Kong under Tier 1 scheme.

5.11 Audit welcomes the TC's recent efforts taken, but notes that there are various challenges ahead in the implementation of the modified MEF. They are outlined as follows:

Tier 1

- (a) ***Difficulties in securing Tier 1 events.*** Tier 1 events are expected to bear a strong international appeal, generate wide international media coverage and attract considerable number of visitors coming to Hong Kong particularly for that purpose. If possible, the events may be held in Hong Kong for a few years to generate sustainable recognition and impact. Almost one year has lapsed since the consultancy survey which was completed in May 2013 (see paras. 5.7 and 5.8). The TC needs to exert greater efforts to identify and secure Tier 1 events for hosting in Hong Kong;
- (b) ***Local factors and constraints.*** Various local factors and constraints, such as event culture and physical/venue considerations, have to be overcome in bringing Tier 1 events to Hong Kong;
- (c) ***Government's readiness to monitor Tier 1 events.*** While Hong Kong has significant experience in staging many mega events, the TC would need to develop a more versatile monitoring and control mechanism as Tier 1 events would entail substantial amounts of public funds and would involve commercial event organisers or professional sports associations established outside Hong Kong. The CEDB informed LegCo in April 2012 that whilst the existing monitoring mechanism would similarly apply to Tier 1 events, it would consult the ICAC to develop more stringent monitoring and control measures from the corruption prevention angle. However, as of February 2014, the ICAC had not been consulted and a more versatile monitoring mechanism had not yet been worked out for Tier 1 events;

Way forward

Tier 2

- (d) the high percentage of rejected applications and the frequent cases of events subject to financial sanctions would affect the effective achievement of the MEF objectives (see paras. 2.8 to 2.10);
- (e) the need to identify more new events in order to address the imbalance between new and repeated events (see para. 2.35); and
- (f) the risk of abuse and various inadequacies in event monitoring and evaluation as pointed out in PART 4.

5.12 Apart from making more vigorous efforts to identify genuine Tier 1 events which could showcase Hong Kong as the events capital of Asia, the TC also needs to expedite its development of a more versatile mechanism for monitoring both Tier 1 and Tier 2 events. Meanwhile, a number of mega events, such as the Hong Kong Marathon and the Hong Kong Sevens, which received no MEF funding are attracting international publicity and record public participation (see para. 2.2).

The need to define key performance targets to measure the effectiveness of the modified MEF

5.13 In April 2012, when seeking the LegCo FC's approval for extending the MEF by creating a new commitment of \$150 million (see para. 1.3), the Administration stated that the initial MEF had served its purpose in facilitating the hosting of more signature events in Hong Kong to enrich the experience of visitors and should be extended. No measurable and quantifiable key performance targets had however been set to justify the new commitment. The Administration needs to define revised performance targets for the modified MEF.

5.14 As mentioned in paragraph 2.2, the MEF was set up at a difficult time when the economy was sinking into recession and employment situation was deteriorating, and the MEF was set up to host mega events to attract more visitors and to make them extend their duration of stay and increase their spending. To justify the setting up of the MEF in May 2009, the Administration estimated that the

MEF would create some 2 800 jobs in the three years of operation. Today, the economic situation in Hong Kong is quite different. In recent years, tourism has continued to record significant growth. Unemployment in Hong Kong had also fallen to a low level of 3.3% in 2013, signifying full employment.

5.15 Given the quite different economic situation which now prevails, the Administration needs to consider whether it is still necessary and appropriate to continue using the number of additional paid jobs created as an important assessment criterion to measure the effectiveness of the MEF. At the same time as revised performance targets are set for the modified MEF, the TC needs to devise a robust mechanism to monitor and evaluate its effectiveness.

Audit recommendations and response from the Administration

PART 2: Achievement of the MEF objectives

5.16 Audit has *recommended* that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), as the Controlling Officer of the MEF, should:

- (a) **urge the TC to:**
 - **conduct an overall review of the MEF, taking on board the audit findings identified in this Audit Report and the challenges Audit identified in paragraph 5.11; and**
 - **exert more vigorous efforts to identify worthwhile Tier 1 events, and explore opportunities for more new Tier 2 events for implementation (see paras. 2.12 and 2.35);**
- (b) **ascertain the underlying reasons, and explore improvement measures, for the high percentage of rejected applications and the frequent cases of MEF events which had been subject to financial sanctions, taking into account the various improvement measures Audit suggested in paragraph 2.11;**

Way forward

- (c) **take follow-up action on the reported findings in paragraphs 2.16 to 2.29, and develop a robust mechanism to validate the deliverables and targets as reported by the organisers to have been achieved by the MEF events (see para. 2.30); and**
- (d) **explore how the TC can work in closer collaboration with other B/Ds to avoid the duplication of Government efforts in monitoring the same event (see para. 2.39).**

5.17 The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) generally agrees with the audit recommendations on ensuring the operation of the MEF achieves its objectives. He has said that:

- (a) the MEF was introduced in May 2009 to provide financial support for local non-profit-making organisations to host mega events in Hong Kong and to reinforce Hong Kong's position as the events capital of Asia. The Administration acknowledges that during the early stage of the establishment of the MEF, it had endeavoured to provide opportunities to some non-profit-making organisations which might have relatively less experience than professional and commercial event organisers in organising large scale events. However, experience showed that the performance of some of these MEF-supported events was less than desirable. The Administration therefore imposed substantial financial sanctions and, in two cases, even disallowed the organisers concerned from applying for the MEF. Regarding the need to strike a reasonable balance between encouraging the staging of more new and attractive events on one hand, and safeguarding the proper use of public money on the other, the Assessment Committee has been putting more emphasis on the organisation ability and track record of applicants when assessing Tier 2 applications in subsequent years;
- (b) he also concurs that there is a need to look into the operation of the MEF (both the Tier 1 and Tier 2 schemes), as well as for the TC to endeavour to identify worthwhile Tier 1 events and appealing new Tier 2 events for possible support by the MEF. In this connection, the TC has been in discussion with the organisers of two potential Tier 1 events. There are certain local factors and constraints which may make it not possible for these events to take place in Hong Kong. The TC will continue to follow

up the discussion in a proactive manner. Given that the discussion involves commercially sensitive information, the Administration considers it premature to make public the details at this juncture. The ICAC will be duly consulted on the monitoring and assessment mechanism pertaining to future Tier 1 events in due course;

- (c) on the Tier 2 scheme, the TC and the Assessment Committee concur that there is room for further enhancement to the operation of the scheme which has been operating for more than four years. A brainstorming session of the Assessment Committee took place on 20 March 2014 to look into possible ways to improve the prevailing Tier 2 scheme with an aim to support more new events. The TC will follow up with the Assessment Committee's comments, such as enhancing the transparency of the MEF application schedule, proactively providing information of reasons for failure for unsuccessful applications and introducing a mechanism for eligible unsuccessful applicants to submit revised applications for the Assessment Committee's further consideration;
- (d) the Administration will promulgate the following improvement measures as suggested by Audit in paragraph 2.11:
 - (i) the TC will explore with the HKTb to see how best to support the promotion of MEF-supported events on a case-by-case basis, taking into account the merits of individual events. The TC will also provide a hyperlink about the MEF-supported events at the TC's dedicated MEF website to the HKTb's website to help step up promotion;
 - (ii) the TC will, starting from the next round of Tier 2 applications, state in the regret letter for every unsuccessful application the main reasons for the failure;
 - (iii) the TC has accepted the ICAC's recommendations and revised one of the assessment criteria (i.e. technical feasibility) accordingly to cover the technical and project management capabilities as well as past performance of the applicant. The TC will also, by making reference to the internal guidelines of other relevant Government Funds, draw up internal guidelines to facilitate staff members serving the MEF Secretariat in vetting the Tier 2 applications; and

Way forward

- (iv) the TC will, in addition to adopting the prevailing practice of arranging meetings with the organisers upon execution of the funding agreements and ad hoc meetings as necessary, hold kick-off meetings with the organisers, including those first-time ones, if necessary, upon approval of their MEF applications and receipt of their acceptance of the conditional offers. These meetings will serve to inform the organisers of the expectations of the Government and Assessment Committee and the organisers' obligation to facilitate the TC's monitoring work;

- (e) the TC has looked into the reported findings in paragraphs 2.16 to 2.27 and will develop a robust mechanism to validate whether the deliverables and targets of the MEF events have been achieved as reported by the organisers. Details of the proposed enhancement measures include the following:
 - (i) conducting random checks on the deliverables and targets (e.g. number of paid jobs created) as reported by the organisers in their evaluation reports. Resources permitting, random checks against the employment contract, payroll records, bank statement or other evidence as appropriate will also be conducted;

 - (ii) conducting random verification on the staff employed for the events against the attendance records on the spot during the MEF Secretariat's on-site inspection;

 - (iii) requesting the organisers to specify clearly the number of local/non-local participants, visitors, employees and reporters respectively without overlapping and identify ways for random checking;

 - (iv) improving the documentation of the checking and/or clarifications made with the organisers as appropriate, and continuing to endeavour to check the validity of the events' recruitment as far as practicable;

- (v) requesting the organisers to develop more scientific methods in counting participants such as by commissioning tertiary institutions or professional entities to conduct the survey, etc; indicating their counting method in the application form; and assisting the TC in counting the staff employed for the event during the MEF Secretariat's on-site inspection as far as practicable;
 - (vi) exploring with the Labour Department to define the meaning of "paid jobs" in the funding agreement so as to avoid counting those non-local/local children as employees of the event; and
 - (vii) liaising with the organisers and other relevant parties (e.g. HKTB) on how best to promote the events to overseas markets, such as developing tourist packages and/or conducting overseas promotion. Where practicable, the TC will consider, taking into account the circumstances of individual events, whether additional requirements on the development of tourist packages such as setting a reasonable target to be imposed under the funding agreement; and
- (f) resources permitting, the TC will better coordinate with the concerned B/Ds on the monitoring of the events in future to avoid unnecessary duplication of the Government's efforts in monitoring the same event.

PART 3: Assessment of applications

5.18 **Audit has *recommended* that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), as the Controlling Officer of the MEF, should:**

- (a) **address the inadequacies identified in paragraph 3.5 to enhance the governance of the Assessment Committee;**
- (b) **follow up on the reported findings in paragraph 3.10 relating to the titling of the two associates of the organiser in the various events as "Event Co-organisers" in the publicity documents;**

Way forward

- (c) **ensure that the TC would require applicants to disclose their management teams and any associates who will be actively involved in organising the proposed events, and that the TC would also develop more specific guidelines to facilitate its staff in the conduct of assessments more effectively (see para. 3.11); and**
- (d) **ensure that the TC would take improvement measures in communicating to applicants that activities organised by the organisers in close proximity to the MEF event should be reported or disclosed, and that the TC would take more proactive action in following up B/Ds' comments (see para. 3.14).**

5.19 The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) agrees with the audit recommendations. He has said that:

- (a) he agrees that there is a need to improve the governance of the Assessment Committee. The following improvement measures will be introduced:
 - (i) when considering appointment/re-appointment of members of the Assessment Committee in future, the TC will, bearing in mind that the continuity of the Assessment Committee is important in ensuring the consistency of assessment, consider introducing new blood to the Committee; and
 - (ii) the TC will record properly the scores awarded to each application under individual assessment criteria in the minutes of the corresponding Assessment Committee meetings;
- (b) the TC has looked into the reported findings in paragraph 3.10 relating to the titling of the two associates of the organiser in the various events as “Event Co-organisers” in the publicity documents and will further step up the monitoring mechanism by requesting the organiser to duly declare any potential conflict of interest particularly involving monetary transactions in the application form and evaluation report, and to record properly such declarations for TC’s checking;

- (c) the TC will request the organisers to duly disclose their management teams and any associates who will be actively involved in organising the proposed events in the application form and post-event evaluation report, and to record properly such declarations for TC's checking. The TC will also, by making reference to the internal guidelines of other relevant Government Funds, draw up internal guidelines to assist the MEF Secretariat in vetting Tier 2 applications; and
- (d) the TC will request the organisers to disclose in the application form and post-event evaluation report in detail should they intend to organise in Hong Kong or overseas any kind of activities/events of similar content or nature in close proximity to the MEF-supported event. A standard clause in the funding agreement will be added to require the organiser to make such a disclosure and secure the Government's prior consent as appropriate. The TC will take proactive action in following up with relevant B/Ds' comments with the organisers pertaining to the MEF-supported events as appropriate.

PART 4: Monitoring and evaluation of events

5.20 **Audit has *recommended* that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), as the Controlling Officer of the MEF, should:**

- (a) **endeavour to have the funding agreements executed in a timely manner so that the TC can more effectively enforce the control measures set out in the agreements (see para. 4.6);**
- (b) **strictly enforce the funding requirement for the organiser and its agents/staff to declare any conflicts of interest in relation to procurement and staff recruitment, and ensure that the organiser has set up a mechanism to mitigate any such declared conflicts (see paras. 4.7 to 4.9);**
- (c) **follow up the suspected irregularities highlighted in paragraph 4.14 and draw lessons to be learned from the findings reported in PART 4;**

Way forward

- (d) **step up the TC's checking and controls over the operation of the MEF events (see paras. 4.13 and 4.15);**
- (e) **ensure that the TC would set funding conditions to govern the distribution of tickets in all future fee-charging MEF events (see para. 4.17);**
- (f) **draw lessons to be learned from the inadequacies in relation to the organisation of Event J (see para. 4.19);**
- (g) **ensure that the TC would require the organisers to use the MEF funding only for the specified purposes as stipulated in the funding agreements (see para. 4.20);**
- (h) **ensure that the TC would step up its enforcement of the acknowledgement requirement, including requiring the organisers to seek its approvals for information on advertising, publicity and sponsor displays at event venues (see para. 4.21);**
- (i) **explore the desirability of conducting a debriefing meeting with the organiser, within a shorter period after an MEF event has been held, to assess the success or otherwise of the event and to draw lessons for the future (see para. 4.23); and**
- (j) **work out guidelines on how MEF funding should be released for Tier 1 events in future (see para. 4.27).**

5.21 The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) generally agrees with the audit recommendations. He has said that:

- (a) the TC will endeavour to execute funding agreements as early as practicable after giving a conditional MEF offer to the applicant. To ensure proper use of public money and the disbursement of Government funding at an appropriate time, the TC will only sign agreement with an organiser upon the finalisation of its operation plan and event budget, as well as fulfilment of other conditions laid down by the Assessment Committee. Should the organiser be unable to fulfill all requirements within a reasonable period, the Assessment Committee could terminate the conditional offer at its sole discretion;

- (b) the TC will step up monitoring of the declaration of conflicts of interest in relation to procurement and staff recruitment by the organisers. Applicants to the MEF will also be requested to disclose their procurement and staff recruitment mechanism in the application form and to report the operation of the mechanism with supporting documents in the evaluation report to the TC;
- (c) the TC will take a series of follow-up actions having due regard to the audit findings as highlighted in paragraph 4.14 and in other paragraphs in PART 4. Details are as follows:
 - (i) depending on the nature/type of individual cases, the TC will continue its prevailing practice to disallow the organiser to stage similar events in Hong Kong or in overseas within a reasonable period or require the organiser to set out clearly the incremental costs on the advertising, promotion or costumes solely arising from the staging of the MEF-supported event. The Assessment Committee will be invited to take note of this and its potential impact on the attractiveness of an event during assessment;
 - (ii) the TC will request organisers to ensure that all event expenditure items should be supported by official invoices/receipts as described in the Guide to Application and the TC will check whether the organisers have fulfilled the requirement when conducting the random document inspection checks. Should organisers be unable to submit official invoices/receipts, they will be required to provide written explanation to the satisfaction of the Assessment Committee. The Assessment Committee and the Controlling Officer of MEF could, at their absolute discretion, decide not to disburse the concerned MEF funding in respect of those expenditure items;
 - (iii) the TC will continue to pay extra attention to those expenditure items which exceed the original budget by 10% as well as those that the relevant B/Ds are of concern, and require the organisers to provide detailed explanation with supporting documents as appropriate;

Way forward

- (iv) the TC will state explicitly in the funding agreement that charges relating to commercial sponsors should not be covered by the MEF funding and the organisers will be further requested to state clearly the incremental charges under respective expenditure items arising from commercial sponsors;
 - (v) the TC will state explicitly in the funding agreement that the organisers must notify the Government in writing and seek its prior consent should there be any special arrangement for returning sponsorships to commercial sponsors; and
 - (vi) in addition to the normal random document inspection checks conducted by the MEF Secretariat staff, the TC will arrange an additional staff with accounting background to conduct random cross checks. In the long run, the TC will consider recruiting a part-time auditor and recruiting/deploying staff members with accounting/audit background/knowledge to serve the Secretariat with a view to enhancing the effectiveness of its monitoring work;
- (d) the TC will step up its communication with organisers and will require them to provide documentation for the procurement exercises (e.g. tendering documents, quotations) when they submit application forms and evaluation reports to facilitate random document inspection checks. The TC will also consult the ICAC on the monitoring and assessment mechanism for Tier 1 events in due course;
- (e) he concurs that there may be merits to regulate the distribution of tickets in fee-charging MEF events. The TC, having regard to the circumstances of individual events, will consider specifying the minimum number of tickets required to be made available for public sale for fee-charging events in the funding agreement;
- (f) the TC notes the experience from Event J. In future, the TC will give due consideration to defining key terms under the funding agreement to avoid enforcement difficulty. Depending on the nature of the events, the TC will continue to request the organisers to explore and develop a contingency plan (such as postponement of the event, purchase of insurance to cover adverse weather conditions in particular for those

outdoor events, etc.) as far as practicable and specify such requirements in the funding agreement;

- (g) the TC will endeavour to ensure that the organisers use the MEF funding only for the specified purposes as stipulated in the funding agreement, and will design more relevant and specified purposes in the funding agreement as appropriate in future. The TC will also require the organisers to fully justify the relevance of the expenditure items in relation to the specified purposes in the funding agreement;
- (h) under the prevailing practice, the organisers are required to submit all publicity materials with the acknowledgement of Government support to the ISD for approval. The TC will also comment on the materials and related arrangements. To step up the monitoring efforts, the TC will require that when organisers seek the ISD's approval of all publicity materials on the acknowledgement of Government support, they should copy their applications to the TC so that more coordinated comments could be provided in a timely manner;
- (i) the TC will conduct a wash-up meeting with the organiser of the MEF-supported event within a month after the event has been held; and
- (j) the TC will, for future Tier 1 events, draw up appropriate payment schedules taking into account the nature and merit of individual events.

PART 5: Way forward

5.22 Audit has *recommended* that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), as the Controlling Officer of the MEF, should urge the TC to expedite its development of a more versatile mechanism for monitoring both Tier 1 and Tier 2 events, consult the ICAC on the monitoring of Tier 1 events, set suitably revised performance targets for the modified MEF and monitor and evaluate its effectiveness (see paras. 5.11(c), 5.12 and 5.15).

Way forward

5.23 The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) agrees with the audit recommendations. He has said that for MEF Tier 1 scheme, the TC will consult the ICAC on the monitoring and assessment mechanism for future Tier 1 events in due course; and for MEF Tier 2 scheme, the TC will look into whether it is appropriate to use the number of additional paid jobs created as one of the key criteria to measure the performance of the MEF Tier 2 events in future.

5.24 The Director of Corruption Prevention, ICAC has said that the ICAC welcomes all government, public and private organisations to seek its corruption prevention services, and stands ready to assist the TC in building necessary safeguards in the monitoring and control of Tier 1 events as well as in other areas.

24 approved MEF-supported events

Item	Date of event	Event title
1	13 Nov 2009	Swire “Symphony Under the Stars”
2	6 – 9 Jan 2010	Hong Kong Tennis Classic 2010
3	26 – 29 Mar 2010	Mui Wo Water Lantern and Sky Lantern Festival
4	27 Mar – 22 Apr 2010	Hong Kong 2010 International a cappella Festival
5	29 Mar – 21 Apr 2010	Hong Kong Musical Festival
6	8 Apr – 30 May 2010	Hope and Glory
7	23 – 25 Jul 2010	Hong Kong Dragon Boat Carnival (Note)
8	1 Jan 2011	Record Breaking Dragon and Lion Dance Extravaganza
9	5 – 8 Jan 2011	Hong Kong Tennis Classic 2011
10	11 – 17 Feb 2011	Hong Kong Well-wishing Festival
11	17 – 19 Jun 2011	2011 Hong Kong Dragon Boat Carnival (Note)
12	25 Sep – 2 Oct 2011	Hong Kong International Jazz Festival 2011
13	28 – 30 Oct 2011	Hong Kong Cricket Sixes 2011
14	1 – 4 Dec 2011	UBS Hong Kong Open Championship 2011
15	1 Jan 2012	Dragon and Lion Dance Extravaganza

Appendix A
(Cont'd)
(para. 1.4 refers)

Item	Date of event	Event title
16	23 Jan – 6 Feb 2012	Hong Kong Well-wishing Festival 2012
17	2 – 8 Jul 2012	2012 Hong Kong Dragon Boat Carnival (Note)
18	15 – 18 Nov 2012	UBS Hong Kong Open Championship 2012
19	1 Jan 2013	Dragon and Lion Dance Extravaganza 2013
20	10 – 17 and 23 Feb 2013	Hong Kong Well-wishing Festival 2013
21	21 – 23 Jun 2013	2013 Hong Kong Dragon Boat Carnival (Note)
22	29 Jul 2013	Manchester United Asia Tour 2013 (Hong Kong Leg)
23	1 Jan 2014	Dragon and Lion Dance Extravaganza 2014
24	6 – 8 Jun 2014	2014 Hong Kong Dragon Boat Carnival (Note)

Source: TC records

Note: The Hong Kong Dragon Boat Carnival was a mega event, funded by the MEF, which was usually held each year a few days/weeks after the Tuen Ng Festival.

Timetable for the repeated shows of Performance A

Date	Particulars
17 – 27 Jun 2009	11 shows held in Hong Kong
30 Jul 2009	Organisers’ submission of MEF application
13 – 16 Aug 2009	6 shows held in Hong Kong (held in the same venue as Event G)
28 – 29 Aug 2009	2 shows held in Guangdong Province, Mainland
4 – 5 Sept 2009	2 shows held in Guangdong Province, Mainland
8 Oct 2009	Issue of MEF letter of offer to the organisers
5 Feb 2010	MEF funding agreement signed
6 Feb 2010	One show held in Macau
15 to 21 Apr 2010 (Note)	10 shows held in Hong Kong under Event G
23 Apr and 1 May 2010	3 shows held in Canada

Source: TC records and Audit research

Note: Performance A was scheduled in the funding agreement to be staged on 8 to 14 April 2010, but the organisers had rescheduled the time schedule without informing the TC or seeking its approval.

Control and monitoring mechanism of the MEF

To ensure proper monitoring of the use of the MEF and the progress of the events, the CEDB has put in place the following control measures:

- (a) applicants are required to state in their applications submitted for consideration by the Assessment Committee the events' deliverables, key milestones, targets, and their methods for measuring the events' performance;
- (b) the Controlling Officer may stipulate specific terms to control the use of the allocated funds and request compliance by the applicants who receive support from the MEF;
- (c) the Controlling Officer has the right to decide that the approved funds be paid by installments after the organisers have achieved the pre-determined milestones;
- (d) organisers are required to maintain all relevant records of the events (including procurement/tendering and staff payroll records), separate and complete books of accounts and register of equipment procured, for inspection and checking by Assessment Committee members or Government representatives as and when required. Such records are required to be kept for a period of seven years following completion of the event;
- (e) Assessment Committee members or Government representatives may participate in progress review or organising committee meetings of the events, conduct visits to the relevant venues of the events and record on-site observations of visits and meetings;
- (f) organisers are required to submit final audited accounts, evaluation reports, publicity reports and survey reports upon completion of the events to the satisfaction of the Assessment Committee and the Controlling Officer; and
- (g) the Controlling Officer reserves the right not to disburse the outstanding funds to the organisers or reduce the amount of outstanding funds to be paid, if their performance in organising the events are not satisfactory or if the events fail to achieve the pre-determined deliverables/targets; or if they breach any funding terms and conditions as stated in the agreements.

Source: TC records

Acronyms and abbreviations

Audit	Audit Commission
B/Ds	Bureaux/departments
CEDB	Commerce and Economic Development Bureau
FC	Finance Committee
HAB	Home Affairs Bureau
HKTB	Hong Kong Tourism Board
ICAC	Independent Commission Against Corruption
ISD	Information Services Department
LCSD	Leisure and Cultural Services Department
LegCo	Legislative Council
MEF	Mega Events Fund
TC	Tourism Commission