

# 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).

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### 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.

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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.