

# **CHAPTER 6**

## **Create Hong Kong**

<h3><b>CreateSmart Initiative</b></h3>
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**Audit Commission  
Hong Kong  
4 April 2014**

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

Report No. 62 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>

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# CREATESMART INITIATIVE

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# CREATESMART INITIATIVE

## Executive Summary

1. In June 2009, the Government set up the CreateSmart Initiative (CSI) with a commitment of \$300 million to provide financial support to non-profit-making creative projects initiated by local creative sectors (including advertising, architecture, design, digital entertainment, music, publishing and printing, and television). In May 2013, the Government injected another \$300 million into the CSI to continue its operation. The Permanent Secretary for Commerce and Economic Development (Communications and Technology) is the Controlling Officer of the CSI. Create Hong Kong (CreateHK) under the Commerce and Economic Development Bureau is responsible for the administration of the CSI. From the inception of the CSI to 30 November 2013, 165 applications with a total funding of \$323 million were approved. The Audit Commission (Audit) has recently conducted a review of the administration of the CSI.

### Vetting and assessing project applications

2. *Declaration of interests.* CreateHK adopts a two-tier system of declaration of interests for the CSI Vetting Committee. Committee members have to make 1st tier declarations upon appointment and annually thereafter. CreateHK sent 1st tier declaration forms to members only a few days before the commencement of their terms. As a result, few members could submit their declarations before the commencement of their terms. Moreover, CreateHK had not taken adequate follow-up action on long outstanding declarations. Members are required to submit their 2nd tier declarations before they serve in Assessment Panels. A chairperson who served in an Assessment Panel in May 2013 had not submitted the 2nd tier declaration until February 2014 (paras. 2.5 to 2.7).

3. *Assessing capability of applicants.* In assessing project applications, one of the factors to be considered is the capability of the project team. However, Audit found that the applicants' provision of project team's information (e.g. the qualifications and experience of project team members) was optional. Such

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information was provided in only 4 of the 10 project applications examined by Audit. Another factor that should be considered is whether the project coordinator and/or project team members would work on more than two projects within the same project period. Audit found that three project coordinators undertook more than two projects concurrently with some of the project periods overlapped. Such information was however not included in the Internal Assessment Reports for the Assessment Panels' consideration (paras. 2.11 to 2.13).

### Control of use of funds

4. *Keeping of books and records.* Instead of following the normal seven-year requirement, grantees of CSI funds are required to retain the books and records for only two years after the project completion or termination date. Audit's examination of the books and records of 15 projects (involving total approved funding of \$52.8 million) revealed that: (a) some expenditure items (amounting to some \$547,000) did not have supporting documents; and (b) the books and records of some projects were incomplete (paras. 3.3 and 3.5).

5. *Use of funds by grantees.* Audit examination of 15 projects revealed that: (a) the grantees of 12 projects had not kept a designated bank account solely and exclusively for the project to ensure that there was no misuse of CSI funds; (b) the grantees of three projects had used the funds to cover unallowable costs (\$63,000); (c) Unlike other CSI projects, the unspent fund balances of one of the 15 projects and its two previous projects (some \$1.35 million in total) were not returned to the Government. These projects were funded under an alternative funding approach which allowed the grantee to retain the unspent fund balances and use funds to cover otherwise unallowable costs (\$100,000 for the project examined); and (d) CreateHK had not followed up the subsequent settlement of accounts payable (some \$8.75 million) of the 15 projects to ensure that the amounts payable were required and the unspent CSI funds were returned to the Government. Audit found that some expenditure items of a project were subsequently cancelled or a lesser amount was paid after the project completion (paras. 3.9 to 3.16).

6. *Inspection of books and records.* Although the Project Agreements confer on CreateHK the right to inspect the books and records of the projects, CreateHK has not done so for any projects (paras. 3.4 and 3.23).



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### Monitoring and evaluating projects

7. *Mode of funding.* According to CreateHK's Procedural Guidelines, for projects which span more than one year, interim instalments (in addition to the upfront and final instalments) will be made on satisfactory performance of appropriate milestones and submission of Progress Reports. Audit examination of 10 projects which spanned more than one year revealed that contrary to the Procedural Guidelines, 5 were funded by only two standardised instalments. No records were available showing the justifications for the non-compliances (paras. 4.3 and 4.4).

8. *Monitoring progress of approved projects.* For projects funded by two instalments, no documentary evidence was available showing that CreateHK had reviewed their progress. Moreover, the CSI Vetting Committee was not informed of the progress of these projects (paras. 4.7 and 4.9).

9. *Site visits.* CreateHK has not set out the selection criteria, the frequency, the checks to be performed and the reporting requirements for site visits. Audit examination of the Site Visit Reports for 30 projects revealed that: (a) all the visits were attendance to open ceremonies, press conferences, exhibitions or music shows; (b) for 18 projects, the inspecting officers had not met the staff of the grantees; (c) visits were completed in an average of 1.6 hours (ranging from 0.3 to 3.5 hours); and (d) for one of four projects where follow-up action was recommended, no documentation showed whether the recommended follow-up action had been taken (paras. 4.11 and 4.12).

10. *Verification of information reported by grantees.* CreateHK prepares Evaluation Reports based on the information provided by the grantees without verifying the accuracy of such information. The lack of a verification mechanism may undermine the reliability and usefulness of the Evaluation Reports (para. 4.18).

### Meeting the objectives of CSI and the way forward

11. *CSI funding strategy.* From the establishment of the CSI in June 2009 to November 2013, the number of projects initiated by the design sector (43 projects) and the digital entertainment sector (55 projects) were far more than those by other sectors (for example, the publishing and printing sector had initiated five projects only). CreateHK needs to ascertain the reasons for the relatively small number of projects initiated by some creative sectors (paras. 5.4 and 5.5).

12. *Measuring performance of CSI.* Audit found that: (a) CreateHK informed periodically the Legislative Council about the performance of the CSI, but the information disclosed was brief and fragmented; (b) it published only two performance indicators; and (c) in disclosing the CSI's performance to the Legislative Council, it provided the economic contributions of all creative sectors, including the sectors not covered by the CSI (paras. 5.12 to 5.16).

13. *Comprehensive review of CSI.* In his 2014 Policy Address, the Chief Executive of the Hong Kong Special Administrative Region said that the Working Group under the Economic Development Commission was studying the future development of the creative industries. In view of this and coupled with the fact that the CSI has been in operation since 2009, CreateHK needs to set a timetable for conducting a comprehensive review of the administration and the way forward of the CSI (para. 5.21).

### Audit recommendations

14. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that the Head of Create Hong Kong should:**

#### *Vetting and assessing project applications*

- (a) **take measures to ensure that sufficient time is given to CSI Vetting Committee members to return their 1st tier declaration of interests on appointment (para. 2.8(a));**

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- (b) **revise the project application form to require the provision of the information on applicants' project teams wherever applicable (para. 2.14(a));**

### *Control of use of funds*

- (c) **lengthen the required retention period of the books and records of the projects (para. 3.6(a));**
- (d) **follow up with the grantees concerned on the anomalies identified by Audit relating to the expenditure items and accounts payable (para. 3.6(b));**
- (e) **follow up those projects where designated bank accounts had not been maintained to ensure that there is no improper use of project funds and take remedial action where necessary (para. 3.17(c));**
- (f) **in future, test check the books and records of grantees to identify unallowable costs and demand repayments from them where warranted (para. 3.17(e));**
- (g) **conduct a review of the alternative funding approach (para. 3.17(f));**
- (h) **test check the subsequent settlement of accounts payable and take remedial measures where necessary (para. 3.17(h));**
- (i) **on a risk basis, carry out sample inspections of the grantees' books and records (para. 3.24);**

### *Monitoring and evaluating projects*

- (j) **issue guidelines setting out the factors that should be taken into account in determining the mode of funding of a project (i.e. number of instalments and amount of each instalment) (para. 4.15(a));**
- (k) **regularly provide the CSI Vetting Committee with information on the progress of the approved projects with a view to seeking its advice and facilitating its monitoring work (para. 4.15(d));**

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- (l) **adopt a structured approach for site visits and issue guidelines setting out the basis of selection, checks to be performed, frequency of visits and the reporting requirements, taking into account project risks involved (para. 4.15(e));**

### *Meeting the objectives of CSI and the way forward*

- (m) **ascertain the reasons for the few projects initiated from some creative sectors and where necessary, take measures to boost the project applications from these sectors (para. 5.10(a));**
- (n) **in addition to disclosing statistics pertinent to all creative sectors, disclose also those statistics that are pertinent only to the creative sectors covered by the CSI (para. 5.18(b)); and**
- (o) **establish a timetable for conducting a comprehensive review of the administration and the way forward of the CSI (para. 5.22).**

## Response from the Administration

- 15. The Head of Create Hong Kong agrees with the audit recommendations.

## **PART 1: INTRODUCTION**

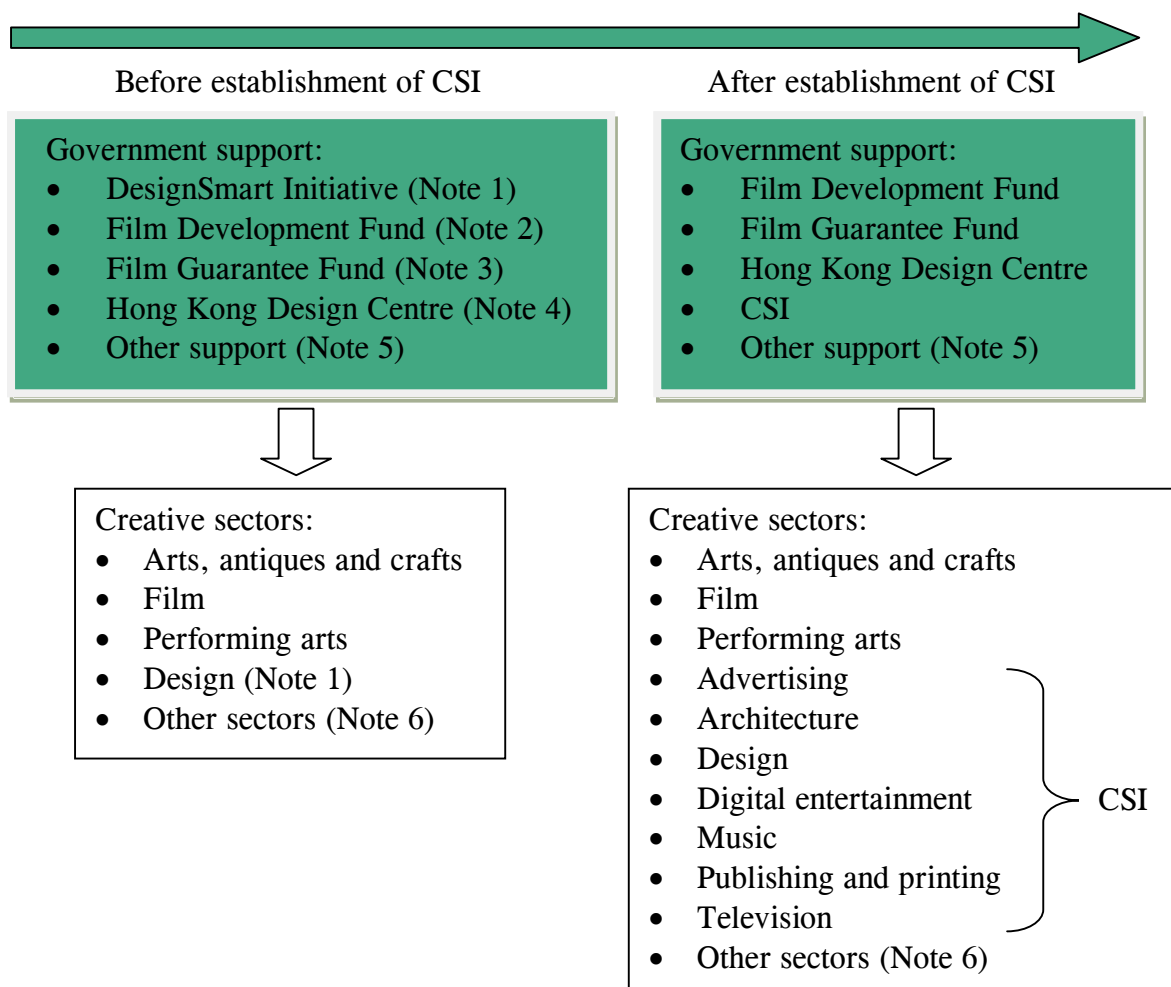
1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

### ***Background***

1.2 Creative industries are important economic drivers of Hong Kong. They help increase the innovation capacity of the economy and can be a powerhouse for future economic growth. It is the Government's policy to promote the development of creative industries in Hong Kong. Creative industries are defined by the Government as those industries which have their origins in individual creativity, skill and talent, and which have a potential for wealth and job creation through the generation and exploitation of intellectual property.

1.3 In the 2007 Policy Address, the Chief Executive of the Hong Kong Special Administrative Region pledged that Hong Kong should accelerate the development of creative industries in order to maintain its competitive edge. In June 2009, the Government set up the CreateSmart Initiative (CSI) with a commitment of \$300 million to provide financial support to projects initiated by local creative sectors which had not been covered by other forms of government support. The creative sectors supported by the CSI include advertising, architecture, design, digital entertainment, music, publishing and printing, and television. Figure 1 shows the government support to the creative sectors before and after the establishment of the CSI in June 2009.

**Figure 1**  
**Government support to creative sectors**



Source: Audit analysis of Create Hong Kong records

Note 1: The DesignSmart Initiative funded design-related projects and activities. It has been subsumed in the CSI since June 2011. The CSI is administered by Create Hong Kong, established in the Commerce and Economic Development Bureau in June 2009.

Note 2: The Film Development Fund provides financial support for the production of small-to-medium budget films and other film-related projects. The Fund is administered by Create Hong Kong.

Note 3: The Film Guarantee Fund provides guarantee to help local film production companies to obtain loans from lending institutions for producing films. The Fund is administered by Create Hong Kong.

Note 4: The Hong Kong Design Centre aims to raise design standards and foster design-related education, and to raise the profile of Hong Kong as an innovation and creative hub. Create Hong Kong is responsible for the housekeeping of the Centre.

Note 5: Other support includes that from the Home Affairs Bureau and that from the Education Bureau (see Note 6 below).

Note 6: Other sectors include promotion of the importance of creativity from the cultural, education and training perspectives. For example, the Home Affairs Bureau funds the operation of the Hong Kong Arts Development Council and the Hong Kong Academy for Performing Arts, and the Education Bureau promotes creativity from the education perspective.

1.4 In May 2013, as the CSI fund of \$300 million was near depletion, the Government injected another \$300 million into the CSI. It was expected that the additional funding would sustain the CSI's operation up to 2016-17.

1.5 The CSI funds non-profit-making projects with objectives that are in line with the Government's seven strategic directions of driving and promoting the development of creative industries, as follows:

- (a) nurturing a pool of creative human capital which will form the backbone of Hong Kong's creative economy;
- (b) facilitating start-ups and the development of creative establishments;
- (c) generating demand for innovation and creativity and expanding local market size for creative industries;
- (d) promoting creative industries in the Mainland and overseas to help explore outside markets;
- (e) fostering a creative atmosphere within the community;
- (f) developing creative clusters (Note 1) in the territory to generate synergy and facilitate exchanges; and
- (g) promoting Hong Kong as Asia's creative capital.

### Organisational structure of CSI

1.6 The Permanent Secretary for Commerce and Economic Development (Communications and Technology) (hereinafter referred to as the Permanent Secretary) is the Controlling Officer of the CSI. Create Hong Kong (CreateHK),

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**Note 1:** *Creative clusters refer to the physical and geographical concentrations of creative activities that pool together resources to optimise the creation, production, dissemination and exploitation of creative work. An example of creative clusters is the former Police Married Quarters on Hollywood Road, which is undergoing revitalisation work.*

## Introduction

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set up concurrently with the CSI under the Commerce and Economic Development Bureau (CEDB) in June 2009, is responsible for the administration of the CSI. CreateHK is overseen by the Head of Create Hong Kong. It incurred an annual expenditure of \$63.5 million for personal emoluments and departmental expenses, and had a staff strength of 69 posts as at 31 December 2013 (Note 2). According to CreateHK, among the 69 posts, 14 officers are responsible for the operation and promotion of the CSI (see Appendix A).

1.7 CreateHK also acts as the Secretariat of the CSI Vetting Committee, which is responsible for assessing CSI project applications and recommending shortlisted projects for approval by the Permanent Secretary. The Committee consists of academics, professionals and representatives from the creative and other industries.

## CSI projects

1.8 From the inception of the CSI in June 2009 to November 2013, there were 329 applications for CSI funding. Of these applications, 165 (50%) were approved. Details are as follows:

- (a) Number of projects approved : 165 (126 completed and 39 in progress)
- (b) Total amount of approved funding : \$323 million
- (c) Duration of approved projects : 2 to 45 months (109 projects with duration less than one year)
- (d) Approved funding of individual projects : \$216,000 to \$8.4 million (no pre-set maximum amount, majority of the projects had funding less than \$3 million)

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**Note 2:** *In addition to the CSI, CreateHK is also responsible for, among others:*  
*(a) administering the Film Development Fund and the Film Guarantee Fund;*  
*(b) overseeing the operation of the Facilitation Service Unit and the Special Effects Licensing Unit to support the film and entertainment industries; and*  
*(c) housekeeping of the Hong Kong Design Centre.*



- (e) Mode of funding : Funding are paid to individual project grantees by instalments
- (f) Actual funding paid : \$247 million

1.9 The nature of the 165 approved projects is as follows:

- (a) competition, award scheme and festival;
- (b) conference, workshop, seminar and forum;
- (c) exhibition and trade show;
- (d) employment programme;
- (e) research and publication, and platform development;
- (f) study mission and delegation; and
- (g) others (such as start-up programme and television programme).

Table 1 and Photographs 1 and 2 show examples of projects initiated by different sectors of the creative industries.

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**Table 1**  
**Examples of approved CSI projects**

Sector	Project	Events organised	Approved funding (\$ million)
Advertising	HK4As Graduate Trainee Programme	<ul style="list-style-type: none"> <li>● Graduates trainee programme</li> </ul>	1.93
Architecture	The 13th Venice Biennale International Architecture Exhibition (Hong Kong Exhibition)	<ul style="list-style-type: none"> <li>● Exhibition at Venice Biennale</li> <li>● Exhibition in Hong Kong</li> </ul>	2.24
Design	International Design Summer Camp Programme	<ul style="list-style-type: none"> <li>● Summer camp with field trip to the Pearl River Delta</li> <li>● Visit to the Milan Design week</li> </ul>	1.82
Digital entertainment	Promoting Hong Kong Comics by establishing Avenue of Comic Stars (see Photograph 1)	<ul style="list-style-type: none"> <li>● Exhibition</li> <li>● Launching of mobile application software</li> </ul>	5.37
Music	Hong Kong Asian-Pop Music Festival 2012 (see Photograph 2)	<ul style="list-style-type: none"> <li>● Music performance, contest and forum</li> <li>● Networking events and receptions</li> <li>● Press conference</li> <li>● Television broadcast</li> </ul>	5.73
Publishing and printing	Soaring Creativity — Hong Kong Publishers and Printers' Participation at London Book Fair	<ul style="list-style-type: none"> <li>● Exhibition</li> <li>● Networking seminar</li> </ul>	2.17
Television	TV World	<ul style="list-style-type: none"> <li>● 3D TV workshop</li> <li>● Digital TV World Directory</li> <li>● Forum</li> <li>● Showcases</li> </ul>	1.02
Others (Note)	“Tian Tian Xiang Shang” Creativity-For-Community and School Development Programme 2012	<ul style="list-style-type: none"> <li>● Exhibitions</li> <li>● Workshops</li> </ul>	4.56

*Source: Audit analysis of CreateHK records*

*Note: Others include cross-sector projects and miscellaneous projects aiming to foster a creative atmosphere within the community in general.*

**Photograph 1**

**Project: Promoting Hong Kong Comics  
by establishing Avenue of Comic Stars**



*Source: CreateHK records*

**Photograph 2**

**Project: Hong Kong Asian-Pop Music Festival 2012**



*Source: CreateHK records*

## **Introduction**

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### **Audit review**

1.10 The Audit Commission (Audit) has recently conducted a review of the administration of the CSI. The audit focused on the following areas:

- (a) vetting and assessing project applications (PART 2);
- (b) control of use of funds (PART 3);
- (c) monitoring and evaluating projects (PART 4); and
- (d) meeting the objectives of CSI and the way forward (PART 5).

### **Acknowledgement**

1.11 Audit would like to acknowledge with gratitude the full cooperation of the staff of CreateHK and the CEDB during the course of the audit review. Audit would also like to thank the grantees visited by Audit for their assistance.

## **PART 2: VETTING AND ASSESSING PROJECT APPLICATIONS**

2.1 This PART examines CreateHK's effectiveness in vetting and assessing project applications under the CSI.

### **CSI Guide**

2.2 CreateHK has issued a CSI Guide to provide project applicants a reference. The CSI Guide sets out, among others, the eligibility criteria, vetting and assessment procedures as well as the obligations of project applicants.

2.3 Upon receipt of a project application, CreateHK will conduct a preliminary screening and initial checking of the application to validate the information and documents (e.g. Business Registration Certificate) submitted by the applicant. Thereafter, CreateHK will conduct an internal assessment in accordance with the criteria set out in the CSI Guide. Finally, an Internal Assessment Report will be submitted to the CSI Vetting Committee for consideration.

### **CSI Vetting Committee**

2.4 The CSI Vetting Committee comprises academics, professionals, and representatives from creative and other industries. According to its terms of reference, the Committee is responsible for, among others:

- (a) assessing project applications;
- (b) making recommendations to the Permanent Secretary on the approval of projects; and
- (c) monitoring progress of approved projects and reviewing their quality.

## Vetting and assessing project applications

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Members of the Vetting Committee are appointed to serve on two-year terms. There were 37 and 34 members for the first and second terms respectively (Note 3). There are 55 members for the third term. The first term started on 1 August 2009. About once a month, an Assessment Panel comprising six to eight Committee members is formed to assess project applications. The quorum of Assessment Panel meetings is four (including the chairperson).

### Declaration of interests

2.5 CreateHK adopts a two-tier system of declaration of interests for the CSI Vetting Committee. Under the two-tier system, to maintain public confidence in the integrity of members and the impartiality of their advice tendered, Committee members have to disclose their general pecuniary interests on appointment and annually thereafter, in addition to the report of conflict of interest as and when they arise:

- (a) *1st tier declarations.* CreateHK requires Committee members to register in writing their personal investment and employment status (including both remunerated and non-remunerated employments) upon appointment, and annually thereafter; and
- (b) *2nd tier declarations.* Before each Assessment Panel meeting, CreateHK circulates information on project applications (e.g. project titles, name of applicants and parties involved) to the Panel members. The members have to submit their 2nd tier declarations on whether they perceive any potential conflict of interest in the applications concerned. Members who declare a conflict of interest will refrain from the meeting and CreateHK will not circulate the relevant papers to them. When a member has received a paper which he/she knows presents a direct conflict of interest, he/she would immediately inform CreateHK and return the paper. All Panel members are required to undertake to comply with the confidentiality requirements.

For transparency, the 1st tier declarations are made available for public inspection.

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**Note 3:** *Upon consolidation of the DesignSmart Initiative and the CSI in June 2011, the DesignSmart Initiative Assessment Panel was disbanded and the 17 members were appointed to the CSI Vetting Committee on 16 January 2012. Since then, there were 51 members for the remaining period of the second term.*

### *Administration of 1st tier declarations*

2.6 Audit examination of the records of the 1st tier declarations of the past three terms found that there was room for improvement:

- (a) ***Too short period allowed for members to make declarations.*** Before the commencement of each term, CreateHK sent declaration forms to members allowing them to submit the declaration forms within two weeks from the date of the letter. However, CreateHK sent the declaration forms to members only a few days before the commencement of their terms. Audit noted that:
  - (i) ***First term and third term.*** CreateHK sent declaration forms to members only one day and two days before the commencement of the first and third terms respectively. As a result, although most members (30 out of 37 for the first term and 42 out of 55 for the third term) were able to return their declarations within two weeks, the register of declarations was not available for public inspection at the commencement of the two terms; and
  - (ii) ***Second term.*** CreateHK sent the forms six days before commencement of the term. As a result, although 23 of the 34 members submitted their declarations within two weeks, only 8 members' declarations were available for public inspection at the commencement of the term. As at 28 February 2014, one member had not yet submitted the declaration (see (b)(ii) below);
- (b) ***Inadequate follow-up action on long outstanding declarations.*** Inadequate follow-up action was taken by CreateHK (e.g. sending reminders). As a result, declarations were not always returned in a timely manner:
  - (i) ***First term and third term.*** Three and four members submitted their declarations more than 30 days after commencement of their respective terms; and
  - (ii) ***Second term.*** Up to 28 February 2014, a member had not submitted the declaration form. Four members submitted their declarations more than 30 days after term commencement (the latest submission was 136 days after term commencement); and

## Vetting and assessing project applications

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- (c) ***Members without 1st tier declarations served in an Assessment Panel.*** CreateHK would not select Committee members to serve in Assessment Panels before they had submitted 1st tier declarations because there was a greater risk of conflict of interest. However, Audit noted that in the second term, four Committee members were selected to serve in an Assessment Panel even though they had not submitted their 1st tier declarations. Although in the end they had all submitted their 2nd tier declarations and confirmed that no conflict of interest existed, this should be avoided to maintain public confidence in the Committee.

CreateHK needs to ensure that declaration forms are sent to members as early as practicable before the commencement of their terms, so that they have sufficient time to return their declarations. This would ensure that the register of declarations is complete and made available to the public for inspection as early as possible. It would also enhance public confidence in the integrity of the Committee. For long overdue 1st tier declarations, CreateHK needs to promptly follow up (e.g. remind members through telephone calls or e-mails). For those members who have not submitted their 1st tier declarations, CreateHK should refrain from inviting them to serve in Assessment Panels as conflict of interest may arise.

### ***Administration of 2nd tier declarations***

2.7 CSI Vetting Committee members are required to submit their 2nd tier declarations every time they are invited to serve in Assessment Panels. Upon clearance of conflict of interest in the 2nd tier declarations, CreateHK will send the projects' Internal Assessment Reports and relevant documents to the members at least two days before the meetings. Audit examined 6 of the 26 Assessment Panels formed in the second term and found the following areas where improvement could be made:

- (a) ***Chairing an Assessment Panel without submitting 2nd tier declaration.*** One of the vice chairpersons of the CSI Vetting Committee served as the chairperson of an Assessment Panel in May 2013. However, the chairperson had not submitted the 2nd tier declaration until Audit raised the issue in February 2014. The declaration received did not indicate any conflict of interest; and



- (b) *Releasing project papers to members who had not submitted their 2nd tier declarations.* For four Assessment Panels held in 2012 and 2013, CreateHK sent project papers to five members four to six days before the meetings, even though it had not received their 2nd tier declarations. Subsequently, they submitted their declarations (Note 4) indicating that they had conflict of interest with the projects concerned and had not participated in the assessment work (Note 5).

CreateHK needs to ensure that project documents are only circulated to members who have returned their 2nd tier declarations and have declared no conflict of interest with the projects concerned.

### Audit recommendations

2.8 **Audit has recommended that the Head of Create Hong Kong should:**

- (a) **take measures to ensure that sufficient time is given to CSI Vetting Committee members to return their 1st tier declaration of interests on appointment;**
- (b) **implement procedures to ensure that only members who have duly submitted their 1st tier declaration of interests which indicate no conflict of interest are invited to serve in Assessment Panels;**
- (c) **take measures to ensure that Assessment Panel members have submitted their 2nd tier declaration of interests before issuing documents relating to project applications to them and allowing them to participate in the Panels; and**
- (d) **take steps to ensure that adequate follow-up action is taken on cases of overdue declarations of interests.**

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**Note 4:** *Of the five members, two submitted their declarations a few days before the meetings whereas three submitted their declarations on the dates of the meetings.*

**Note 5:** *The quorum of these four Panels was not affected and CreateHK did not have to select new Panel members.*

### **Response from the Administration**

2.9 The Head of Create Hong Kong agrees with the audit recommendations. He has said that:

- (a) CreateHK will implement procedures to ensure that only members who have duly submitted their 1st tier declaration of interests are invited to serve in Assessment Panels;
- (b) it is the usual practice of CreateHK to remind members to declare interests at the start of the Panel meetings before the projects are discussed. If a member declares conflict of interest, CreateHK will put on record the declarations and arrange the member concerned to withdraw from the meeting when the project in question is discussed. In future, CreateHK will record in the notes of Panel meeting both declaration of no conflict of interest and declaration of conflict of interest made at the Panel meeting;
- (c) in future, CreateHK will take measures to ensure that the 2nd tier declaration forms are received before issuing documents relating to project applications to the members; and
- (d) CreateHK had taken follow-up action on all outstanding declaration forms. Regarding the outstanding declaration forms mentioned in paragraph 2.6(a)(ii) and (b)(ii), CreateHK was unable to contact the member concerned through various means. The member was not invited to any Assessment Panel meetings during his term. Should there be similar case in future, CreateHK will consider annulling the appointment.

### **Assessing capability of applicants**

2.10 Upon receipt of project applications, CreateHK conducts assessment according to the CSI Guide, including whether the project is non-profit making in nature and the potential of the project in promoting the development of creative industries in Hong Kong. CreateHK also reviews and where necessary, revises downward the applicant's proposed project budget. Afterwards, it submits an Internal Assessment Report together with the revised project budget to the Assessment Panel for consideration.

### *Capability of project teams*

2.11 One of the assessment factors specified in the CSI Guide is the capability of the project team, i.e. technical capabilities, project management capability, expertise, experience, qualifications, track record, and the resources available for the project. However, Audit found that:

- (a) ***Absence of information on project teams.*** The applicants' provision of project teams' information was stated as optional in the application form. Applicants could choose not to provide such information. Audit examination of 10 project applications revealed that information on the qualifications and experience of the project team members (such as *curricula vitae*) was provided in only 4 project applications; and
- (b) ***Projects carried out by third parties.*** Audit noted that some projects were carried out substantially by third parties rather than the project applicants. In such projects, the obligations imposed by the Project Agreements to perform specific tasks were largely assigned to third parties and a large proportion of the CSI grants was received by such parties (i.e. the sub-grantees). For projects of such nature, the capability of the sub-grantees was more important than that of the project applicants. However, the CSI Guide did not require the assessment of the capability of the sub-grantees in the assessment of the project applications and did not require the applicants to provide such information of sub-grantees.

### *Projects sharing resources*

2.12 CreateHK states on its website that there is no restriction on the number of applications submitted by an applicant at any one time. In assessing each application, it will consider the capability of the applicant to deploy adequate resources to complete the project, taking into account the number of projects the same applicant was undertaking. In the assessment checklist, the factors that should be considered by the CSI Vetting Committee in assessing project applications included the following:

*“whether the project coordinator nominated by the applicant and/or project team members will work on more than two projects within the same project period”*

## **Vetting and assessing project applications**

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2.13 Audit's analysis of the 165 approved projects revealed that 3 applicants and 3 corresponding project coordinators undertook more than two projects concurrently. For the period from 2011 to 2013, they undertook a total of 21 projects. Each of the project coordinators was concurrently responsible for 4 to 5 projects with some of the project periods overlapped. For example, 4 projects (with approved funding ranging from \$501,000 to \$5.4 million) were overseen by the same coordinator for a continuous period of 6 months. Of the four projects, one project involved organising events in the Mainland. Audit however found that no information on the number of projects concurrently undertaken by the same coordinator and/or project team member had been included in the Internal Assessment Reports for the Assessment Panels' consideration.

### **Audit recommendations**

- 2.14 **Audit has *recommended* that the Head of Create Hong Kong should:**
- (a) **revise the project application form to require the provision of the information on applicants' project teams wherever applicable;**
  - (b) **for projects involving the engagement of major sub-grantees, require project applicants to provide information on the sub-grantees' project teams for the Assessment Panel's consideration wherever applicable; and**
  - (c) **take measures to ensure that information is provided wherever applicable by the applicant on whether the project coordinator and/or any project team members will work concurrently on three or more projects within the same project period.**

### **Response from the Administration**

2.15 The Head of Create Hong Kong agrees with the audit recommendations. He has said that project team members are usually recruited after the project is approved. CreateHK will revise the project application form to require information on the project team if the team has been formed.

### **Repeated projects**

2.16 CreateHK allows applicants to submit applications for repeated projects (i.e. projects which are re-run of previous projects) to provide flexibility for them to develop projects with a longer-term vision for the benefit of the creative industries. Of the 165 projects approved in the period from June 2009 to November 2013, CreateHK identified 54 (33%) as repeated projects (with approved funding totalled \$89.6 million). They were re-runs of 28 projects. Each of the 28 projects was re-run for one to four times.

### ***Two-control Rule***

2.17 Applications for repeated projects are subject to the Two-control Rule. One objective of the Two-control Rule is to ensure that repeated projects have the capability of obtaining some financial support from the commercial and industrial sectors to prove the project's sustainability. Another objective is to strike a balance between helping the sustainable development of a repeated project and allowing more resources to be provided for new projects which can benefit the creative sectors at large. Under the Rule, one of the following two conditions must be fulfilled:

- (a) the amount of approved funding should not exceed that of the previous project; or
- (b) the amount of public funding as a percentage of the project cost should not exceed that of the previous project.

Applications which have failed to meet the Rule will only be considered with full justifications.

### ***Identification of repeated projects***

2.18 CreateHK has not established clear criteria for what constitutes a repeated project. Audit noted that in the period from 2011 to 2013, an applicant had undertaken a series of five similar projects (with approved funding totalled \$17.4 million), but only one of the projects (Project C) was identified as a repeated project (see Table 2).

## Vetting and assessing project applications

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Table 2

**Five similar projects undertaken by an applicant  
(2011 to 2013)**

Project	Locations of international book fair	Date of submitting application	Project period	Date of approval	Approved funding (\$ million)
A	Cities I, II and III	1/2011	3/2011 to 2/2012	2/2011	4.8
B	City IV	12/2011	1/2012 to 5/2012	1/2012	2.2
C	Cities I, II and III	5/2012	4/2012 to 5/2013	7/2012	3.5
D	Cities II and V	12/2012	12/2012 to 7/2014	2/2013	3.9
E	Cities I, III and VI	1/2013	1/2013 to 5/2014	4/2013	3.0
Total					17.4

Source: CreateHK records

2.19 The activities undertaken in the five projects were similar, namely the setting up of pavilions at international book fairs to demonstrate the creativity and accomplishment of Hong Kong's publishing and printing industries as well as helping local companies explore markets. Some locations of the activities organised under the projects overlapped with each other. The major difference among the projects was the locations. Audit, however, noted that only Project C was identified as a repeated project of Project A. Upon enquiry, CreateHK informed Audit in December 2013 that Project C covered the same scope as that of Project A (i.e. participating the same book fairs held in the same cities). CreateHK also said that as Projects B, D and E involved in participating book fairs held in cities different from those of Project A, they were not identified as repeated projects.

2.20 Contrary to the criterion adopted by CreateHK for identifying repeated projects mentioned in paragraph 2.19, Audit noted that in April 2012 (i.e. about eight months before processing applications of Projects D and E), CreateHK identified Project G as a repeated project of Project F even though the two projects (see Table 3) involved significant differences in thematic focus on, and scale of profiling of Hong Kong's creative sectors, and the locations of the events organised.

Table 3

Projects F and G

Project	Date of submitting application	Project period	Date of approval	Approved funding (\$ million)
F	1/2011	9/2010 to 6/2011	3/2011	1.9
G	2/2012	12/2011 to 10/2012	4/2012	2.1

Source: CreateHK records

2.21 Audit further found that had Project D been identified as a repeated project, it would have failed to meet the Two-control Rule and needed full justifications for approval.

***Re-running project funded by other government schemes***

2.22 CreateHK publishes on the CSI's website that re-running projects previously funded by other government schemes will be subject to the Two-control Rule. However, Audit found that in practice CreateHK only checked whether the project concerned was a re-run of previous projects funded by the CSI and the DesignSmart Initiative (Note 6). It did not check or ask the applicant to declare whether the project was a re-run of projects previously funded by government schemes other than the CSI.

2.23 In February 2014, CreateHK informed Audit that:

- (a) the Two-control Rule was only applicable to projects which were re-runs of projects previously funded by the CSI and the DesignSmart Initiative; and
- (b) the information on the CSI's website was not entirely correct.

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**Note 6:** *The DesignSmart Initiative has been subsumed in the CSI since June 2011.*

## **Vetting and assessing project applications**

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2.24 Audit considers that information published by CreateHK on its website is an important reference for potential project applicants. They may be misinformed if incorrect information is published.

### **Audit recommendations**

2.25 **Audit has *recommended* that the Head of Create Hong Kong should:**

- (a) **issue clear guidelines on the criteria for the identification of repeated projects and promulgate the same on the CSI's website to enhance transparency and public accountability; and**
- (b) **take measures to ensure that information published on the CSI's website is correct and accurate.**

### **Response from the Administration**

2.26 The Head of Create Hong Kong agrees with the audit recommendations. He has said that the information on the CSI's website regarding the application of the Two-control Rule to re-run projects was amended on 28 February 2014 in the light of Audit's observation.



## **PART 3: CONTROL OF USE OF FUNDS**

3.1 This PART examines the CreateHK's control of use of project funds.

### **Funding requirements**

3.2 The grantee of an approved project is required to comply with the terms and conditions laid down in the Project Agreement and use the funds only for expenditures set out in the approved project budget. On completion of a project, the grantee is required to submit a Completion Report and audited accounts to the satisfaction of CreateHK (Note 7). Audit examination of the use of funds by grantees revealed room for improvement in the following areas:

- (a) keeping of books and records (paras. 3.3 to 3.7);
- (b) use of funds by grantees (paras. 3.8 to 3.18);
- (c) use of funds by subsidised parties (paras. 3.19 to 3.22); and
- (d) inspection of books and records (paras. 3.23 to 3.25).

### **Keeping of books and records**

#### ***Retention period for books and records***

3.3 It is stipulated in Project Agreements that grantees have to keep proper books and records for inspection by CreateHK. Audit noted that instead of following the normal seven-year requirement under various Ordinances (e.g. the Companies Ordinance (Cap. 622), the Insurance Companies Ordinance (Cap. 41) and the Inland Revenue Ordinance (Cap. 112)), grantees are required to retain the books and records for only two years after either the project completion date or early termination date.

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**Note 7:** *The requirement to submit audited accounts is to assure the Government that the project funds have been fully and properly applied to the project for which they are paid, and received and expended in accordance with the approved project budget, and the grantee complied with the funding terms and conditions in the administration, management and usage of the project.*

## Control of use of funds

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3.4 The Project Agreements confer on CreateHK the right of access to the projects' books and records for inspections (see also para. 3.23). They also confer the same right on Audit for conducting audits. Audit considers that CreateHK needs to lengthen the retention periods of the projects' books and records to conform to the usual practice.

### *Grantees' books and records*

3.5 Audit examined the grantees' books and records of 15 completed projects (Note 8) with a total approved funding of \$52.8 million. Audit found that:

- (a) *Expenditure without supporting documents.* Some expenditure items of Projects M and R amounting to some \$547,000 did not have supporting documents (e.g. receipts); and
- (b) *Incomplete books and records.* There were no balance sheets for Projects H, M, R and T. It was therefore uncertain whether the amounts of accounts payable were correct (see also para. 3.16).

## Audit recommendations

3.6 **Audit has recommended that the Head of Create Hong Kong should:**

- (a) **lengthen the required retention period of the books and records of the projects;**
- (b) **follow up with the grantees concerned on the anomalies identified by Audit relating to the expenditure items and accounts payable; and**
- (c) **take measures to ensure that grantees keep proper books and records for their projects.**

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**Note 8:** *The 15 projects were completed in the period from April 2011 to May 2013. They covered various creative sectors with approved funding ranging from \$261,000 to \$8,379,000.*

## Response from the Administration

3.7 The Head of Create Hong Kong agrees with the audit recommendations. He has said that CreateHK has initiated action to follow up with the grantees concerned on the anomalies identified by Audit. It is also preparing a Quick Reference Guide to remind grantees of the requirements in the implementation of CSI projects, which include the keeping of books and records. The following arrangements will be put in place shortly:

- (a) CreateHK will explain to the grantees details of the Guide before the CSI funds are released to them;
- (b) the grantees will be required to acknowledge the full understanding of the Guide;
- (c) upon completion of projects, the grantees will be required to confirm that the required action as set out in the Guide has been taken; and
- (d) the Guide will be passed to the auditors to facilitate their checking of the grantees' compliance with the Guide.

## Use of funds by grantees

3.8 Grantees are required to observe the following requirements laid down in the Project Agreements:

- (a) ***Designated bank account.*** The grantee is required to keep a designated bank account solely and exclusively for depositing all receipts and making payments in relation to the project;
- (b) ***Approved project proposal.*** The grantee should use the project funds only for carrying out the project in accordance with the budget containing all expenditure items set out in the approved project proposal;
- (c) ***Unallowable costs.*** The grantee should not use the project funds to cover building facilities (e.g. office and accommodation), rates, rental, project staff gratuities, fringe benefits, allowances, meals, etc.;

## Control of use of funds

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- (d) *Unspent balance.* Upon completion of the project, unspent balance is required to be returned to the Government; and
- (e) *Procurement requirements.* The grantee is required to obtain adequate number of written quotations for every procurements as follows:

Procurement amount	No. of quotations
>\$5,000 to <\$10,000	2
≥\$10,000 to <\$500,000	3
≥\$500,000	5

If the grantee procures goods or services from a single supplier/service provider, prior approval from CreateHK should be sought.

### *Projects without designated bank account*

3.9 Audit examination of the 15 projects (see para. 3.5) revealed that the grantees of 12 projects had not kept a designated bank account. Case 1 demonstrates the anomaly.

#### Case 1

1. Project M was approved with a funding of some \$3.6 million for organising a series of overseas and local events to promote Hong Kong as a nexus for creative talents in Asia.

2. In November 2013, in response to Audit's enquiry, the grantee informed CreateHK that the project's bank accounts had been used to handle funds not related to the project. It also said that due to oversight and cashflow reasons, it had deposited CSI funds into its own bank accounts and settled payments unrelated to the project from such accounts. Audit noted that the grantee was granted CSI funds of some \$3.6 million to re-run the project (Project N) in 2014.

Case 1 (Cont'd)

***Audit comments***

3. Audit considers that CreateHK needs to follow up the case with the grantee to ensure that there was no misuse of CSI funds and to instigate remedial action where warranted (e.g. recoupment of CSI funds and consider penalising the grantee).

*Source: Audit analysis of CreateHK records*

***Unallowable costs***

3.10 As mentioned in paragraph 3.8(c), project funds should not be used to cover unallowable costs. Audit, however, noted that of the 15 projects examined, the grantees of three projects had used the funds for unallowable costs. Details are given below:

- (a) ***Travelling expenditure.*** Under Project I, the grantee led a group of designers to participate in an overseas exhibition. Project funding of some \$14,000 was used on expenditure items not set out in the approved project budget (i.e. additional travelling and accommodation costs for two designers who stayed behind after the exhibition);
- (b) ***Costs disallowed by CSI Vetting Committee.*** For Project M, the CSI Vetting Committee rejected the grantee's request for the printing of the Year Book as it doubted the necessity and cost-effectiveness of doing so. Nevertheless, the grantee used some \$19,000 of the CSI funds to print the Year Book; and
- (c) ***Allowances.*** For Project U, some \$30,000 was paid to the staff of the grantee as meal allowances. For Project M, which was funded under an alternative funding approach (see para. 3.13(a)), the grantee paid a total of some \$100,000 to its Director as monthly allowances. CreateHK informed Audit in late March 2014 that the \$100,000 allowances were paid out of sponsorship (i.e. non-CSI funds). Under the existing practice, CreateHK did not monitor the expenditure covered by non-CSI funds.

## Control of use of funds

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### *Unspent fund balance*

3.11 According to the CSI Guide, in making an application for CSI funding, the applicant is required to submit a proposed budget showing all income (e.g. from sale of admission tickets and donations), sponsorship and expenditure of the project. CSI funding is given by way of a grant. It will cover only the net approved project costs after deducting the expected income and the amount of sponsorship (i.e. the income and the sponsorship are lumped together and offset against the project costs, any excess of project costs will be funded by the CSI). After the completion of the project, any unspent fund balance of the project is required to be returned to the Government.

3.12 Of the 15 projects examined, Audit noted that Project M had an unspent fund balance of some \$580,000. Project M was a repeated project and the previous projects implemented in 2011 and 2012 (Projects K and L, which were not included in the 15 projects) also had unspent fund balances (see Table 4). Audit found that the unspent fund balances of the three projects had not been returned to the Government.

**Table 4**

#### **Unspent fund balances of Projects K, L and M**

	<b>Project K</b>	<b>Project L</b>	<b>Project M</b>
<b>Total income</b>	\$6.33 million	\$6.17 million	\$6.14 million
<b>Total expenditure</b>	\$5.89 million	\$5.84 million	\$5.56 million
<b>Unspent fund balance</b>	\$0.44 million	\$0.33 million	\$0.58 million

*Source: Audit analysis of CreateHK records*

3.13 In late March 2014, CreateHK informed Audit that:

- (a) the unspent fund balance of Project M was not required to be returned to the Government because in its application for CSI funding, the grantee had proposed an alternative funding approach, which was different from the traditional approach (see para. 3.11). Under the alternative funding approach, the CSI funding would be used to cover certain designated expenditure items of the project (which did not include the director's

allowances mentioned in para. 3.10(c)), while some other expenditure items would be covered by sponsorship (which was non-CSI funds). The grantee informed CreateHK that it had expended all the CSI funds on designated CSI-funded expenditure items. The unspent fund balance originated from sponsorship;

- (b) the Assessment Panel and the Government were aware of the alternative funding approach at the project assessment and approval stages. By permitting the grantee not to apply the sponsorship to offset the designated expenditure items would allow the overall project to expand in scope, develop into a larger platform benefitting more people, and in turn reduce the share of public funding in the total cost of the overall project. As approved by the Government, sponsorship and budgeted income from the admission charge and sale of on-site merchandise would not be used to offset CSI funding support but to cover other expenditure items of the project;
- (c) the grantee had advised that the unspent fund balance had been used as general working capital for the continuous development of the grantee's overall programme, of which Project M was a part, to fund the operational expenses as well as networking and researches conducted throughout the year; and
- (d) as regards Projects K and L (for which the same alternative funding approach was adopted), the grantee had confirmed that the unspent fund balances of these two projects also originated from sponsorship.

3.14 Audit noted that the grantee was granted CSI funding of some \$3.6 million to re-run the project again in 2014. The project, which was also funded under the alternative funding approach, was expected to complete in May 2014. Audit considers that CreateHK needs to conduct a review of the alternative funding approach taking into account the following factors:

- (a) of the 15 projects examined by Audit, only Project M used the alternative funding approach in seeking CSI funding. Of the remaining 14 projects, the grantees of six projects (with sponsorship totalling \$2.9 million) had returned unspent fund balances of some \$2.1 million to the Government; and

## **Control of use of funds**

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- (b) it is a general practice of the Government that unspent fund balances of government funded projects need to be returned to the Government. The unspent fund balance is defined as the residue of all receipts of a project (including the government grant, sponsorship, donations and other incomes) after deducting all the project's expenditure. An example of other Government Funds that require return of unspent fund balance is the Film Development Fund administered by CreateHK.

In the light of the results of the review, CreateHK needs to revise the CSI Guide as appropriate to stipulate whether or not the alternative funding approach is allowed.

### ***Procurement***

3.15 Audit examination of the 15 projects indicated that the grantees of all the projects had not fully followed the procurement requirements. Examples included cases where the grantee:

- (a) obtained less than three written quotations from supplier/service provider for procurement with value exceeding \$10,000;
- (b) selected the supplier/service provider who was not the one that submitted the lowest bid and no proper justification was given; and
- (c) procured from a single supplier/service provider without seeking CreateHK's prior approval.

### ***Subsequent settlement of accounts payable***

3.16 The last instalment of the approved funding of a project is disbursed upon acceptance of the Completion Report and audited accounts. Some expenditure items are recorded in the audited accounts as accounts payable. According to the books and records of the 15 projects examined by Audit, such expenditure items (ranged from \$9,000 to \$2.1 million) amounted to a total of some \$8.75 million (17% of the projects' total approved funding of \$52.8 million). Audit noted that CreateHK had not taken steps to follow up the subsequent settlement of these expenditure items. Given the large amounts of accounts payable of some projects, Audit considers that CreateHK needs to follow up their subsequent settlement to ensure that project funds are disbursed properly. Case 2 illustrates the importance of such verification.



Case 2

1. Some \$1.2 million of Project R's expenditure remained to be settled after project completion in March 2012. Upon Audit's request for inspection of books and records, the grantee of Project R informed CreateHK in January 2014 that some expenditure items were subsequently cancelled or paid with a lesser amount after the project completion:

- (a) "conference operations expenditure" of \$20,000 and "layout fee of research report" of \$15,000 were waived by the creditors;
- (b) an item of "research fee" of RMB 20,000 was overstated as RMB 50,000 due to typographical error; and
- (c) another item of "research fee" was reduced from RMB 150,000 to RMB 112,500 as the researcher agreed to receive a lesser amount due to his failure to complete part of his work.

2. The grantee said that some \$118,000 would be returned to CreateHK upon its final verification of the amounts.

*Audit comments*

3. CreateHK needs to test-check the subsequent settlement of accounts payable, and to demand repayments from grantees where warranted.

*Source: Audit analysis of CreateHK records*

### Audit recommendations

- 3.17 **Audit has recommended that the Head of Create Hong Kong should:**
- (a) **remind grantees the need to maintain designated bank accounts solely for handling project funds;**
  - (b) **consider penalising grantees who failed to maintain designated bank accounts;**
  - (c) **follow up those projects where designated bank accounts had not been maintained to ensure that there is no improper use of project funds and take remedial action where necessary (e.g. initiating recoupment of funds and/or penal action);**
  - (d) **follow up those projects where the grantees have used project funds to cover unallowable costs (see para. 3.10) and seek repayments from them;**
  - (e) **in future, test check the books and records of grantees to identify unallowable costs and demand repayments from them where warranted;**
  - (f) **conduct a review of the alternative funding approach;**
  - (g) **remind grantees of the procurement requirements and conduct test-checks to ensure compliance;**
  - (h) **test check the subsequent settlement of accounts payable and take remedial measures (e.g. demand repayments from grantees if any payables have been settled with smaller amounts) where necessary;**
  - (i) **revise the Project Agreement to spell out the requirement that if the amount of project funds used to settle accounts payable is less than the amount received by the grantee from the Government for such purpose, the grantee should refund the difference to the Government; and**
  - (j) **ensure that grantees' track records of handling project funds is taken into account in assessing their new applications for funding.**

## Response from the Administration

3.18 The Head of Create Hong Kong agrees with the audit recommendations. He has said that:

- (a) CreateHK is preparing a Quick Reference Guide to remind grantees of the requirements in implementing CSI projects, which include maintaining a designated bank account, a highlight on unallowable costs and the compliance with the procurement requirements. CreateHK will arrange an independent auditor to conduct test checks on the compliance with the Guide;
- (b) CreateHK has initiated actions to follow up projects where designated bank accounts have not been maintained;
- (c) CreateHK will seek repayment from the grantees for the unallowable costs incurred;
- (d) for Case 1, follow-up action with the grantee and the auditor concerned has been initiated. CreateHK is seeking further information from both parties. It also intends to conduct a second audit by another independent auditor. Remedial action will be taken;
- (e) in the light of the large number of completed projects, CreateHK will ask grantees to declare if there is any unspent balance in their projects, and conduct random verification and recoup unspent balances as appropriate; and
- (f) CreateHK has initiated follow-up action to ascertain the subsequent settlement of accounts payable and take remedial action where necessary. For future CSI projects, it will ask grantees to provide a list of accounts payable upon submission of the audited accounts, so that it could follow up the actual amount paid at a later date and demand repayments where necessary.

## Use of funds by subsidised parties

3.19 Project V was a programme aiming to train animation start-up companies to produce animation films. The grantee of Project V entered into an agreement

## Control of use of funds

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with each of the 20 programme participants and provided from the project funds a subsidy of \$80,000 to each of them for the production of a 3-minute animation film. To prevent possible abuse of project funds, the CSI Vetting Committee specified that the grantee should set out clear guidelines and criteria for the participants to follow. These guidelines and criteria were subsequently incorporated into the agreements. Audit, however, found the following anomalies:

- (a) ***Acquisition of fixed assets without grantee's endorsement.*** The grantee specified that the participants had to obtain its endorsement before procuring equipment. Six participants incurred some \$72,000 to procure equipment (such as a notebook computer with retina display costing \$21,000) without following the requirement;
- (b) ***Eligibility of participants.*** The participants were required to be incorporated in Hong Kong under the Companies Ordinance. Of the 20 participants, 12 did not meet such eligibility criterion; and
- (c) ***Unallowable expenditure.*** Of the \$80,000 subsidy, a maximum of \$56,000 was allowed to cover manpower expenditure (animation specialist) while the remaining balance was for other expenditure relating to the production of the animation work (e.g. script writing, hardware or equipment, voice talent, audio recording studio, and music). Audit found that a participant had used some \$1,000 of the subsidy to pay part of office rental.

3.20 To ensure that grantees properly oversee the use of subsidy by project funds parties, Audit considers that the Project Agreement needs to provide that grantees are liable for the inappropriate use of project funds (including making repayments to the Government) by subsidised parties.

## Audit recommendations

3.21 **Audit has recommended that the Head of Create Hong Kong should:**

- (a) **require grantees to ensure that parties subsidised by them properly used the subsidies;**
- (b) **provide in the Project Agreement that grantees are liable for inappropriate use of project funds by subsidised parties; and**

- (c) **recoup from grantees funds used for unallowable expenditure by subsidised parties.**

## **Response from the Administration**

3.22 The Head of Create Hong Kong agrees with the audit recommendations.

## **Inspection of books and records**

3.23 It is specified in the Project Agreements that CreateHK or its authorised representatives have the right to inspect the grantees' books and records during the period of the Agreements and the two-year retention period. However, CreateHK has not done so for any of the projects funded by the CSI since its inception in 2009. In view of the various anomalies described in this PART, and to ensure that the grantees' expenditures are properly accounted for, Audit considers that CreateHK needs to work out a plan for inspecting the books and records of projects on a sample basis, taking into account risk factors such as the approved funding amount and track records of grantees (e.g. in the case of repeated projects).

## **Audit recommendation**

3.24 **Audit has *recommended* that the Head of Create Hong Kong should, on a risk basis, carry out sample inspections of the grantees' books and records.**

## **Response from the Administration**

3.25 The Head of Create Hong Kong agrees with the audit recommendation. He has said that CreateHK will arrange an independent auditor to conduct sample inspections of the grantees' books and records.

## **PART 4: MONITORING AND EVALUATING PROJECTS**

4.1 This PART examines the work of CreateHK in monitoring and evaluating approved projects.

### **Project monitoring**

4.2 According to the CSI Guide, the approved funding will be disbursed by instalments on satisfactory performance of appropriate milestones, and strictly in accordance with the terms and conditions as set out in the Project Agreement. The last instalment will be made upon:

- (a) the successful implementation of the project in accordance with the project proposal;
- (b) the due compliance with the Project Agreement;
- (c) the submission of Completion Report and the final audited accounts to the satisfaction of CreateHK; and
- (d) evidence showing that all committed sponsorship have been in place.

### ***Mode of funding***

4.3 The mode of funding (i.e. the number of instalments and the percentages of funds released in each instalment) of projects varies. According to CreateHK's Procedural Guidelines, projects which span one year or less will be funded by two instalments, i.e. an upfront instalment and a final instalment. For projects which span more than one year, interim instalments (in addition to the upfront and final instalments) will be made on satisfactory performance of appropriate milestones and submission of Progress Reports. The Progress Reports will be considered by the CSI Vetting Committee and approved by the Permanent Secretary before releasing the instalments to the applicant. Of the 165 approved projects, 112 (68%) spanned one year or less and 53 (32%) spanned more than one year (ranged from 13 to 45 months). Audit examined the funding mode of 20 projects (10 spanned one year or less and 10 more than one year).

4.4 Of the 10 projects which spanned more than one year, 5 (spanned 17 to 24 months) were funded by only two instalments, contrary to the Procedural Guidelines. No records were available showing the justifications for the non-compliances. Furthermore, Audit noted that for all the 13 projects which were funded by two instalments, despite the significant variations among them (e.g. their amounts of approved funding and cash flow pattern), the percentages of funds released in the two instalments (70% upfront and 30% final) were the same. No records were available showing the justifications for the fixed percentages of funds released. CreateHK informed Audit in March 2014 that they did not record the justifications for adopting the standard mode of funding (i.e. 70% upfront and 30% final). For non-standard mode of funding, they had recorded the justifications.

4.5 Audit considers that CreateHK needs to provide clear guidance on the factors to be considered (e.g. cash flow pattern of a project) in the Procedural Guidelines with a view to facilitating the determination of the mode of funding.

### *Monitoring progress of approved projects*

4.6 It was stated in the CSI Guide that CreateHK could suspend or terminate the funding support to a project for reasons including:

- (a) non-compliance with all or any of the terms and conditions as set out in the Project Agreement;
- (b) lack of progress of the project in a material way;
- (c) slim chance of completion of the project in accordance with the project proposal;
- (d) the original objectives of the project were no longer relevant to the needs of the creative industry as a result of material change in the circumstances;
- (e) the objectives and relevance of the project had been overtaken by events; and
- (f) CreateHK saw the need to suspend or terminate the project in public interest.

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4.7 If a project's funding is released by interim instalments, CreateHK requires grantees to submit progress reports. CreateHK will review the project progress and seek the CSI Vetting Committee's support and the Permanent Secretary's approval for disbursing the interim instalments. For projects funded by two instalments only (i.e. no interim instalments are released), no documentary evidence was available showing that their progress (deliverables and milestones) had been reviewed. In February 2014, CreateHK informed Audit that during the course of the implementation of the projects, grantees were required to submit publicity materials wherever applicable for review to ensure that acknowledgement of CreateHK was properly made. At that time, CreateHK would review whether the event concerned was being carried out in accordance with the approved project proposal.

4.8 In order for CreateHK to exercise timely action in response to the situations listed in paragraph 4.6, there is a need for CreateHK to monitor closely the progress of all approved projects (e.g. requiring grantees to submit progress reports at suitable time intervals), taking into account the nature of individual projects.

4.9 According to its terms of reference, the CSI Vetting Committee is responsible for monitoring the progress and reviewing the quality of approved projects. However, Audit found that CreateHK only informed the Committee of the progress of a project when it sought the Committee's support and the Permanent Secretary's approval to release interim instalment of the project. For projects without interim instalments, the Committee was not informed of their progress.

4.10 Audit considers that CreateHK needs to take measures to facilitate the CSI Vetting Committee in monitoring the progress of approved projects. For instance, periodic progress reports on all approved projects should be submitted to the Committee for consideration.

### ***Site visits***

4.11 CreateHK did not promulgate guidelines or prepare work plans for site visits. For example, CreateHK did not set out the criteria for selecting projects for site visits, the frequency of visits, the checks to be performed during visits and the reporting requirements. As a result, projects were not selected on a consistent



basis, and checks performed during the visits and the site visit reports varied from project to project.

4.12 Audit examined the records of 38 projects (comprising 31 completed projects and 7 projects in progress). Audit found that CreateHK did not conduct site visit for 8 completed projects (approved funding for each project ranged from \$0.25 million to \$2.91 million). Of the 8 projects, 5 involved overseas events. For the remaining 30 projects (with approved funding ranged from \$0.28 million to \$7.37 million), CreateHK conducted one site visit for each of them. Audit found that all the site visits were attendance to open ceremonies, press conferences, exhibitions or music shows. Audit reviewed the Site Visit Reports and found that:

- (a) ***Meeting staff of grantees.*** For 12 of the 30 projects, the inspecting officer(s) had met the staff of the grantees. However, there was no information on the issues (e.g. the progress of the projects or challenges and difficulties encountered) that had been discussed. For the remaining 18 projects, the inspecting officers had not met the staff of the grantees;
- (b) ***Duration of site visit.*** For the 30 projects, the inspecting officer(s) completed the site visit in an average of 1.6 hours (ranging from 0.3 to 3.5 hours). Audit could not identify a correlation between the time taken for the visits and the complexity of the projects, the amounts of the approved funding or the checks performed during the visits; and
- (c) ***Follow-up action.*** For 26 of the 30 projects, no follow-up action was recommended in the Site Visit Reports. For the remaining 4 projects, the Report recommended follow-up action on matters relating to the size of the pavilion and number of exhibits, and the boosting up of the public attendance for coming events. For one of the four projects, there was no documentation showing whether the recommended follow-up action had been taken.

### ***Completion Reports and audited accounts***

4.13 Grantees are required to submit a Completion Report together with the audited accounts within two months from project completion. Audit analysis of all the 102 projects whose Completion Reports were due for submission as at 30 September 2013 revealed that the Completion Reports and audited accounts of 62 (61%) projects were submitted on average about two months (the longest

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overdue period was about 9 months) after the due dates (i.e. the expiry of the two-month period).

4.14 The number of grantees who failed to submit the Completion Reports and audited accounts on time was significant. This suggests a need for CreateHK to review why the grantees have difficulties in complying with the deadline. In the light of results of its review, CreateHK may need to take appropriate action either to tighten its follow-up action on late submissions or set a more realistic and achievable submission deadline taking into account the feedbacks from the creative industries. CreateHK may also consider setting a submission deadline for each project, taking into account its complexity and nature.

## Audit recommendations

4.15 **Audit has *recommended* that the Head of Create Hong Kong should:**

- (a) **issue guidelines setting out the factors (such as the cash-flow pattern of projects) that should be taken into account in determining the mode of funding of a project (i.e. number of instalments and amount of each instalment);**
- (b) **take measures to ensure that the justifications for the mode of funding are documented;**
- (c) **monitor the progress of all approved projects and document the action taken in monitoring the projects;**
- (d) **regularly provide the CSI Vetting Committee with information on the progress of the approved projects with a view to seeking its advice and facilitating its monitoring work;**
- (e) **adopt a structured approach for site visits and issue guidelines setting out the basis of selection, checks to be performed, frequency of visits and the reporting requirements, taking into account project risks involved (such as the funding amounts and nature of the projects);**
- (f) **ensure that observations made during site visits are followed up and the results of the follow-up action taken are documented; and**

- (g) **review the deadline for submitting Completion Reports and audited accounts and consider either tightening up follow-up action on late submissions or revising the submission requirement by setting a more realistic and achievable submission deadline.**

### **Response from the Administration**

4.16 The Head of Create Hong Kong agrees with the audit recommendations. He has said that:

- (a) CreateHK will formally issue guidelines setting out the factors that should be taken into account in determining the mode of funding of a project;
- (b) CreateHK will ensure proper documentation of the action taken in monitoring the progress of approved projects;
- (c) since November 2013, all new projects spanned more than one year are required to submit mid-term progress reports to the CSI Vetting Committee for consideration;
- (d) CreateHK will follow up the observations made during site visits as appropriate and ensure the proper documentation of follow-up action taken; and
- (e) site visit is not applicable to those projects which involve research, writing of guidelines, etc. For overseas events, CreateHK will balance the merits against cost effectiveness of site visits. For local events, the existing practice of CreateHK is to arrange site visit as far as practicable. CreateHK will develop criteria for conducting site visits and ensure proper documentation is kept for site visit.

### **Project evaluation**

4.17 Upon the receipt of Completion Reports and the audited accounts for completed projects, CreateHK will prepare Evaluation Reports and submit them with the grantees' Completion Reports to the CSI Vetting Committee for consideration. The Committee will then make recommendations to the Permanent

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Secretary on the acceptance of the Completion Reports and audited accounts, as well as the disbursement of the final instalments to the grantees.

### ***Verification of information reported by grantees***

4.18 CreateHK prepares Evaluation Reports based on the information in the Completion Reports and supplementary information provided by the grantees. The information of the projects that may be relevant to the preparation of Evaluation Reports include the number of visitors, participants and grantees' efforts in promoting the projects. There may be a risk that the information obtained includes intended or unintended misstatements. The lack of a verification mechanism on the information obtained from the grantees may undermine the reliability and usefulness of CreateHK's Evaluation Reports. CreateHK should devise a system to verify the accuracy of the information as far as practicable to enhance the reliability and usefulness of its evaluation results.

### ***Time schedule for project evaluation***

4.19 CreateHK did not have a time schedule or target completion date for conducting evaluation of projects. Audit examined 20 completed projects and noted that CreateHK completed the evaluations on average 2.5 months (ranging from 17 days to 8.5 months) after receiving the Completion Reports from the grantees. Late completion of the evaluations may lead to late recovery of unspent balances and late release of final instalments to the grantees, and may also affect the assessment of new project applications submitted by the same applicants (see para. 2 of Case 4 in para. 4.27). Audit considers that CreateHK needs to conduct project evaluation in a timely manner and set a target completion date in finalising the evaluation reports.

### ***Post-project Evaluation Questionnaire***

4.20 To evaluate the effectiveness of the projects in achieving their objectives, it is stated in the Project Agreements that:

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- (a) whenever so required by the Government, the grantees shall complete and return to the Government a Post-project Evaluation Questionnaire within six months from the date of completion of the project or earlier termination of this Agreement; and
- (b) the grantee shall report in the Post-project Evaluation Questionnaire the efforts in publicising the Project, and provide quantitative measurement on the adoption of the Project achievements by the industry.

Audit noted that CreateHK had not required any grantees to complete and submit the Questionnaire stated in the Project Agreements.

4.21 In February 2014, CreateHK informed Audit that:

- (a) there was no material difference between the contents of Post-project Evaluation Questionnaire and those of the Completion Report; and
- (b) it would be desirable to remove from the Project Agreement the requirement to complete a Post-project Evaluation Questionnaire.

4.22 Audit considers that CreateHK needs to regularly review the Project Agreement to ensure that it is up-to-date and does not include unnecessary requirements.

### ***Use of questionnaire in conducting review***

4.23 It is common that questionnaire survey is used in conducting reviews, comprehensive or otherwise, of programs, initiatives and schemes. When seeking the additional funding of \$300 million for sustaining the operation of the CSI in May 2013, CreateHK informed the Finance Committee of the Legislative Council that a review in the form of a questionnaire survey was conducted in late 2012 to evaluate the mode of operation of the CSI. The results of the review indicated that the parties concerned were satisfied with the mode of operation.

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4.24 CreateHK used different questionnaires for three target groups (i.e. (a) grantees; (b) members of the CSI Vetting Committee; and (c) the relevant industry and trade associations). Two questionnaires contained ten questions and one questionnaire contained eight questions. Audit noted that in three of the eight or ten questions in the questionnaires, there was bias in the ratings for respondents to choose from. In these questions, the majority of the ratings tended to be favourable ratings. For example, for the question “How useful is the CSI in assisting your organisation to achieve the project objective(s)?”, respondents were asked to choose one of the following ratings: “definitely useful”, “very useful”, “useful”, “fair” and “not useful”.

4.25 To avoid bias, a good practice is to balance the ratings around a neutral mid-point. For example, the respondents are offered ratings “very useful”, “useful”, “neither useful nor unuseful”, “unuseful” and “very unuseful”.

### ***Using previous evaluation results for assessing new applications***

4.26 Audit scrutiny of the Internal Assessment Reports on project applications revealed that in assessing project applications, CreateHK took into account the track records of the applicants in running previous CSI projects. In particular, CreateHK relied on applicants’ past performance to assess their capabilities. However, Audit noted that for some projects, information on past performance of the applicants included in the Internal Assessment Reports had missed some important information (e.g. the failure of the applicant in soliciting the committed sponsorship).

4.27 In assessing the application for re-running a previously funded project, it is important that the evaluation results of the previously funded project are included in the Internal Assessment Report and are taken into consideration by the Assessment Panel. Audit examination revealed that this was not always the case (see Cases 3 and 4).

**Case 3**

**Sponsorship obtained less than committed**

1. Projects L, M and N were repeated projects of Project K. For Projects L and M, the grantee failed to solicit the committed amounts of sponsorship.

Project	Project period	Approved funding (\$ million)	Sponsorship		
			Committed (\$ million)	Actual (\$ million)	Variance (\$ million)
K	4/2010 to 3/2011	3.3	3.31	3.36	0.05
L	5/2011 to 5/2012	3.6	3.30	2.08	(1.22)
M	6/2012 to 5/2013	3.6	3.50	2.06	(1.44)
N	7/2013 to 5/2014	3.6	2.62	(Note)	—

*Note: As at December 2013, the information was not yet available as the project had not been completed.*

*Remarks: In addition to the CSI fund and the sponsorship from the private sector, the projects had other income (e.g. admission charges for participants of project events).*

2. For Projects L and M, the grantee substantially reduced the project costs by \$1.58 million (21%) and \$2.36 million (30%) respectively. CreateHK included such information in the Evaluation Reports of the two projects. The assessment of the Completion Report of Project L and the application of Project M were discussed in the same Panel meeting while that of the Completion Report of Project M and application of Project N were discussed at another Panel meeting. According to CreateHK, the respective Assessment Panels concerned were in full picture of the past performance of the applicant and the evaluation results of the previously funded project.

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### Case 3 (Cont'd)

#### *Audit comments*

3. The Assessment Panel was aware of the failure of the grantee to solicit the committed amount in the Project M. However, the fact that the grantee had repeatedly failed to solicit the committed amounts in two previous projects (i.e. Projects L and M), and the effects of the consequential cutting of the project costs were not included in the Internal Assessment Report of Project N. The substantial shortfalls in the amounts of sponsorship of Projects L and M might indicate that the applicant was unable to obtain adequate support from the commercial and industrial sectors. CreateHK should have included such information in the Internal Assessment Report of Project N for the Assessment Panel's attention.

*Source: Audit analysis of CreateHK records*

### Case 4

#### CSI Vetting Committee's comments not included in Internal Assessment Reports

1. Projects P and Q were repeated projects of Project O.

<b>Project</b>	<b>Approved funding (\$ million)</b>	<b>Date of approval</b>	<b>Project period</b>	<b>Date of Internal Assessment Report</b>	<b>Date of Evaluation Report</b>
O	3.5	11/2011	10/2011 to 2/2012	10/2011	9/2012
P	3.5	9/2012	9/2012 to 1/2013	7/2012	4/2013
Q	3.7	8/2013	8/2013 to 2/2014	7/2013	(Note)

*Note: As at January 2014, the Evaluation Report was not available as the project had not yet been completed.*



### Case 4 (Cont'd)

2. On reviewing Project O after its completion, the CSI Vetting Committee commented that more efforts should be put in collecting feedback in future as the response rate to the questionnaire survey was low (88 of 50,000 participants responded). For Project P, the Internal Assessment Report was prepared in July 2012 before the Evaluation Report of Project O was completed in September 2012. As a result, the Internal Assessment Report of Project P did not include such information.

3. After reviewing the Evaluation Report of Project P, the CSI Vetting Committee noted that the grantee had not sought CreateHK's prior approval for some changes of project deliverables and that there was a significant financial deficit. The Committee commented that the grantee should exercise better control in budget monitoring in future and more efforts should be put in collecting feedback in future as the response rate was low (166 of 60,000 participants responded).

4. CreateHK considered that the low response rate of the questionnaire survey was not unique to Projects O and P, and the changes in project deliverables were considered as having the same effects as the original deliverables. Therefore, the information about the grantee's failure to obtain prior approval for changing deliverables and the low response rate of the questionnaire survey for Projects O and P were not included in the Internal Assessment Report of Project Q.

#### *Audit comments*

5. Audit considers that as CreateHK had included the information of the low response rate of the questionnaire survey conducted by the grantee and the grantee's failure to obtain prior approval for the changes in project deliverable in the Evaluation Reports, such information should also be included in the Internal Assessment Reports of the repeated Project Q to help the CSI Vetting Committee assess the applications for the repeated projects more effectively.

*Source: Audit analysis of CreateHK records*

### Audit recommendations

- 4.28 **Audit has *recommended* that the Head of Create Hong Kong should:**
- (a) **issue guidelines setting out a systematic approach in conducting project evaluation, e.g. the information to be collected, the mechanism of verifying the information as far as practicable, and the time frame for each stage of evaluation;**
  - (b) **take measures to ensure that evaluations of completed projects are finalised in a timely manner;**
  - (c) **regularly review the Project Agreement to ensure that it is up-to-date and does not include unnecessary requirements;**
  - (d) **if questionnaire is used in reviews of the CSI, balance the ratings around a neutral mid-point;**
  - (e) **take measures to ensure that the performance of grantees in previous projects (e.g. failure to solicit the committed amount of sponsorship) is recorded in the Internal Assessment Reports of the grantees' subsequent applications; and**
  - (f) **ensure that the CSI Vetting Committee's comments on individual projects are followed up and incorporated in the Internal Assessment Reports of subsequent applications of repeated projects.**

### Response from the Administration

4.29 The Head of Create Hong Kong agrees with the audit recommendations. He has said that:

- (a) to verify the correctness of the information provided by the grantee (such as the number of visitors and participants), CreateHK will seek further information or proof from the grantee in case of doubt;

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- (b) CreateHK will ensure that the deadlines in each stage of evaluation are met; and
- (c) to give the Assessment Panel a full picture of the previous project, CreateHK will attach the Evaluation Report and relevant notes of Panel meeting of the previous project to the Internal Assessment Report of repeated projects.

## **PART 5: MEETING THE OBJECTIVES OF CSI AND THE WAY FORWARD**

5.1 This PART examines CreateHK's strategic planning and performance management and evaluates how they have helped CreateHK meet the objectives of the CSI. This PART also examines the way forward for the operation of the CSI.

### **Importance of strategic planning and performance management**

5.2 Strategic planning is very important to the CSI as it helps determine the direction and scope and matches resources to changing environment and new demands. Performance management, on the other hand, not only provides a means to measure how well the CSI has performed, but also helps enhance transparency and accountability.

5.3 Audit's examination of CreateHK's strategic planning and performance management revealed room for improvement in the following areas:

- (a) CSI funding strategy (paras. 5.4 to 5.11);
- (b) measuring the performance of CSI (paras. 5.12 to 5.19); and
- (c) comprehensive review of CSI (paras. 5.20 to 5.23).

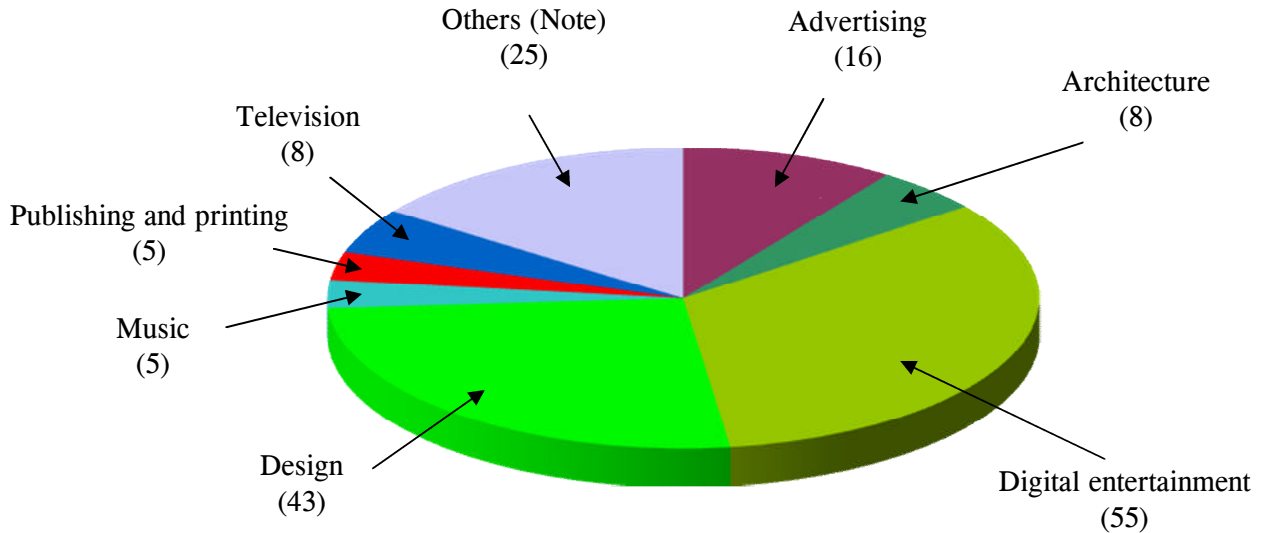
### **CSI funding strategy**

#### ***Number of projects initiated by creative sectors***

5.4 Figure 2 shows, since the establishment of the CSI in June 2009, the number of approved projects initiated by individual creative sectors.

Figure 2

**Number of approved projects in various creative sectors  
(30 November 2013)**



Source: CreateHK records

Note: Others included cross-sector projects and miscellaneous projects aiming to foster a creative atmosphere within the community in general. An example of a cross-sector project is the SmartHK programme in which various creative sectors such as advertising, architecture and design were included.

As shown in Figure 2, the CSI funded far more projects from the design sector and the digital entertainment sector (98 projects in total) than other sectors (67 projects in total).

5.5 Audit considers that CreateHK needs to ascertain the reasons for the relatively small number of projects in some of the creative sectors. It also needs to boost project applications from those creative sectors with few projects initiated, where necessary. For example, CreateHK may initiate theme-specific topics to solicit project applications from such sectors. Its Promotion Team (see Appendix A) may also encourage the relevant sectors to initiate more projects.

### *Publicising creative sectors funded by CSI*

5.6 The CSI funds projects initiated by creative sectors including advertising, architecture, design, digital entertainment, music, publishing and printing, and television. It also funds cross-sector projects.

5.7 CreateHK publishes on its website the following information for its approved CSI projects:

- (a) project reference;
- (b) project title;
- (c) applicant organisation;
- (d) approved funding;
- (e) brief description of the project;
- (f) event date; and
- (g) contact information.

5.8 Audit, however, noted that CreateHK has not clearly shown on its website or in any of its public documents (e.g. the guidelines for project applications which include such information as eligibility and assessment criteria) the aforesaid creative sectors (e.g. the creative industries of animation, comics and digital games covered by the digital entertainment sector) that the CSI funds. To enable potential project applicants to better understand the sectors funded by the CSI, Audit considers that CreateHK needs to publish such information on its website and in its public documents.

### *Strategic plan*

5.9 According to CreateHK, it has conducted strategic planning exercise of the CSI to set out the strategic areas of focus. Audit recognises CreateHK's efforts on strategic planning. However, Audit noted that CreateHK has not formally documented its strategic plan. Audit considers that it needs to establish a strategic plan to formally lay down the strategic goals of the CSI and the way it addresses the challenges facing the CSI in the short term and the longer term. The process and the plan could be used as a platform to elicit ideas, expert advice, and feedback from its Assessment Panel members and other stakeholders. Such a document will bring the benefits of:

- (a) more systematically driving and promoting the development of creative industries. In fact, strategic plans have been prepared by overseas entities carrying out the function similar to that of CreateHK (such as the Creative Industries Working Group in the Northern Ireland and the Creative Industries Taskforce in New South Wales);
- (b) helping inform and remind the management and staff (and especially their successors) the strategic goals and challenges of the CSI so as to facilitate them to work collaboratively towards achieving the goals and meeting the challenges; and
- (c) forming a basis for evaluating the extent that the strategic goals have been achieved and the challenges have been met.

### **Audit recommendations**

5.10 **Audit has *recommended* that the Head of Create Hong Kong should:**

- (a) **ascertain the reasons for the few projects initiated from some creative sectors and where necessary, take measures to boost the project applications from these sectors;**
- (b) **publish on the CSI's website and in relevant public documents the creative sectors and industries funded by the CSI; and**
- (c) **develop a formal strategic plan for the CSI and update the plan periodically to take into account changes in the CSI's strategic goals and challenges.**

### Response from the Administration

5.11 The Head of Create Hong Kong agrees with the audit recommendations. He has said that:

- (a) CreateHK adopts a “partnership approach” whereby the industry draws up and drives the support programmes while the Government provides funding support through the CSI. All creative sectors may approach CreateHK for CSI funding as long as the project meets the CSI’s objectives and assessment criteria;
- (b) one reason for more projects in the design sector and the digital entertainment sector is that both sectors have a wide coverage (e.g. the design sector covers product design, graphic design, fashion design and interior design, etc., whereas the digital entertainment sector covers animation, comics and digital games). Moreover, design is a value-added tool across trade and industry, which may also initiate design-related projects to help boost their competitiveness. Another reason is that the Government initiated large-scale promotional programme for the design and animation-comic sectors in 2012 and 2013 through the “2012 Hong Kong Design Year” and “Hong Kong Ani-com Summer” respectively. This programme has stimulated interest for organising programmes and hence seeking funding support from the CSI; and
- (c) based on CreateHK’s observation, some creative sectors with fewer industry associations may take on fewer projects. Moreover, some creative sectors manage to obtain funding support from other sources and hence need not seek funding from the CSI.

### Measuring performance of CSI

#### *Performance information*

5.12 *Information on achieving strategic directions.* CreateHK has informed periodically the Panel on Information Technology and Broadcasting (the Panel) and the Finance Committee of the Legislative Council about how the CSI has helped drive and promote the development of creative industries. Before early 2013, CreateHK grouped the information on the performance of the CSI with that of other schemes it administered (see Note 2 in para. 1.6). In early 2013, CreateHK provided a separate account of the performance of the CSI. Audit, however, noted



that the information disclosed was brief and fragmented. It did not illustrate comprehensively how and the extent to which the CSI-funded projects had achieved the individual strategic directions required of the projects by the CSI (see para. 1.5). For example, in disclosing the performance of the projects in “fostering a creative atmosphere within the community”, “developing creative clusters in the territory” and “promoting Hong Kong as Asia’s creative capital” to the Finance Committee in May 2013, CreateHK stated that:

*“the CSI has so far committed \$87.3 million ..... for 29 approved projects ..... which involve mega creative events, regional forums and conferences, music festivals, fashion show, etc. These programmes help raise the profile of Hong Kong’s creative industries locally, in the region and overseas.”*

5.13 ***Disclosing performance information to public.*** CreateHK also discloses to the public the CSI’s performance by publishing performance indicators in the Controlling Officer’s Report of the CEDB. Audit, however, noted that it only published two performance indicators, namely the number of CSI applications received and processed, and the number of CSI projects funded and being monitored.

5.14 For better transparency and public accountability, Audit considers that CreateHK needs to disclose more performance information (both quantitative and qualitative ones). It is also desirable to show the performance information on the CSI’s website as very often this is the first place interested parties would visit to obtain information about the CSI. Examples of such performance information are:

- (a) ***Quantitative performance information.*** CreateHK may disclose other performance information that it has maintained. For instance, it may disclose the number of job opportunities created by the programmes organised under the CSI projects, and the number of business development opportunities created for small and medium enterprises by the CSI projects; and
- (b) ***Qualitative performance information.*** CreateHK may regularly tell the success stories of projects.

## Meeting the objectives of CSI and the way forward

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5.15 *Disclosing performance information to Legislative Council.* In disclosing the CSI's performance to the Panel and the Finance Committee of the Legislative Council, CreateHK sometimes (e.g. in the paper submitted to the Finance Committee in May 2012) provided the statistics compiled by the Census and Statistics Department on the economic contributions relating to not only the creative sectors covered by the CSI, but also other sectors not covered by the CSI. Such sectors included arts, antiques and crafts, cultural education and library, archive and museum services, and performing arts. CreateHK explained to Audit that the statistics were intended to be background information on the cultural and creative environments in Hong Kong as a whole.

5.16 Audit notes CreateHK's intention. Nevertheless, Audit considers that it would be more relevant and appropriate for CreateHK to separately show the statistics relating only to those creative sectors covered by the CSI. By doing so, a more precise picture about the economic contributions of the sectors covered by the CSI would be provided (see Table 5 for an example).

**Table 5**

**Economic contributions of creative sectors in 2010**

	<b>Statistics stated in the paper submitted to the Finance Committee in May 2012  (Note 1)</b>	<b>Statistics relevant to CSI  (Note 2)</b>
<b>Number of establishments</b>	34,000	27,000
<b>Number of persons engaged</b>	189,000	161,000
<b>Value added to Hong Kong's Gross Domestic Product</b>	\$78 billion	\$69 billion

*Source: CreateHK records and Audit analysis of Hong Kong Monthly Digest of Statistics of the Census and Statistics Department*

*Note 1: The figures included the economic contributions of creative sectors both covered and not covered by the CSI.*

*Note 2: The figures included the economic contributions of only the creative sectors covered by the CSI.*

### *Performance pledges*

5.17 CreateHK has stated in the CSI Guide (see para. 2.2) that applicants will be informed of the project assessment results within 50 working days. However, Audit noted that apart from this performance pledge, no other pledges had been established (e.g. the number of working days required for releasing funds to grantees upon project approval). For public accountability and continuous improvement of the CSI operation, CreateHK needs to establish more performance pledges and to report the achievements of the pledges.

### **Audit recommendations**

- 5.18 **Audit has *recommended* that the Head of Create Hong Kong should:**
- (a) **disclose more quantitative and qualitative performance information (including, where appropriate, the achievements of projects by each individual strategic directions) on the CSI's website;**
  - (b) **in addition to disclosing statistics pertinent to all creative sectors, disclose also those statistics that are pertinent only to the creative sectors covered by the CSI; and**
  - (c) **establish more performance pledges and report the extent of achieving the pledges.**

### **Response from the Administration**

5.19 The Head of Create Hong Kong agrees with the audit recommendations. He has said that the extent of achieving the performance pledges will be included in the annual update on the work of CreateHK reported to the Panel of the Legislative Council.

### Comprehensive review of CSI

5.20 In this audit review, Audit has identified scope for improvement in meeting the objectives of the CSI and in enhancing the administration of the CSI funds (PARTs 2 to 5). Audit considers that CreateHK should take on board the audit recommendations to address the issues discussed in this Audit Report. In addition, Audit considers that CreateHK needs to conduct on a periodic basis comprehensive reviews of the CSI to continuously improve its administration and evaluate its effectiveness in driving and promoting the development of the creative industries.

5.21 In his 2014 Policy Address, the Chief Executive of the Hong Kong Special Administrative Region said that the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries under the Economic Development Commission (Note 9) was studying, among other things, the future development of the creative industries. In view of this and coupled with the fact that the CSI has been in operation since 2009, Audit considers that CreateHK needs to set a timetable for conducting a comprehensive review of the administration and the way forward of the CSI.

### Audit recommendation

5.22 **Audit has recommended that the Head of Create Hong Kong should establish a timetable for conducting a comprehensive review of the administration and the way forward of the CSI.**

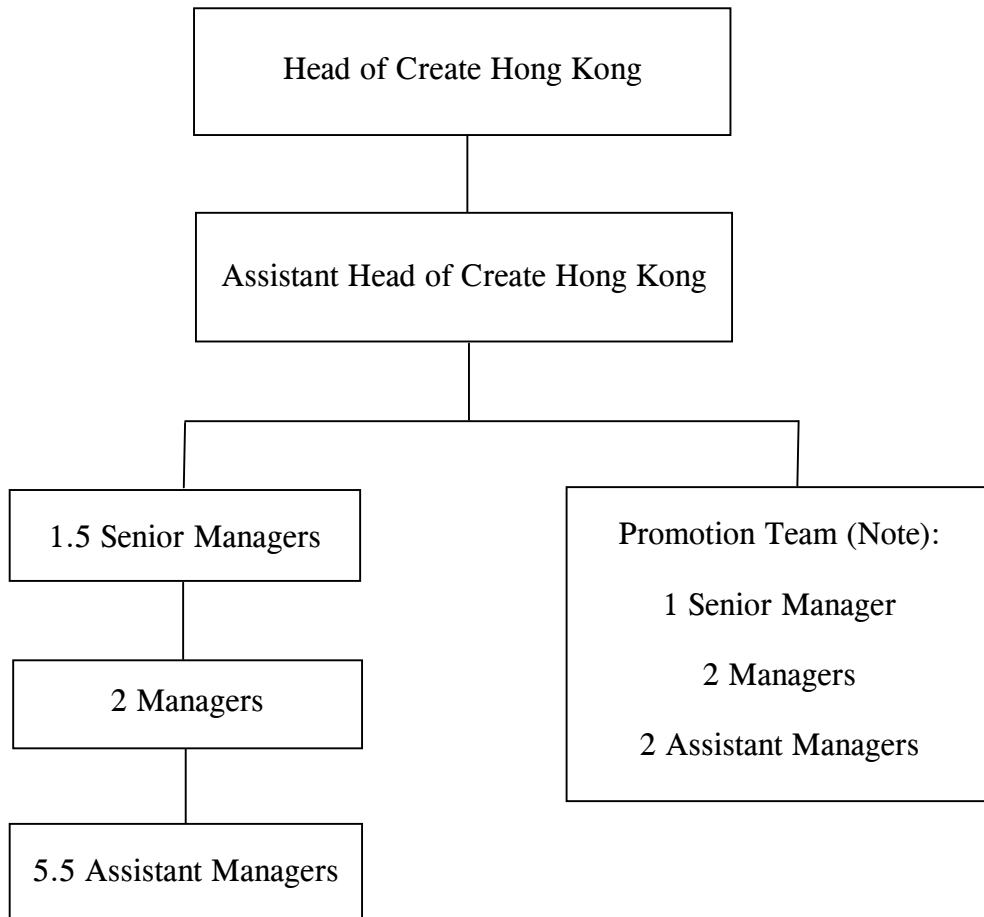
### Response from the Administration

5.23 The Head of Create Hong Kong agrees with the audit recommendation.

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**Note 9:** *The Economic Development Commission was established in January 2013 to provide visionary direction and advice to the Government on the overall strategy and policy to broaden Hong Kong's economic base and to enhance Hong Kong's economic growth and development. The Commission is chaired by the Chief Executive and comprises non-official members and ex-officio members appointed by him. One of the four working groups under the Commission is the Working Group on Manufacturing Industries, Innovative Technology, and Cultural and Creative Industries.*

**CreateSmart Initiative  
organisation chart (extract)  
(31 December 2013)**



*Source: CreateHK records*

*Note: The Promotion Team also conducts promotional and policy support work for CreateHK.*

**Acronyms and abbreviations**

Audit	Audit Commission
CEDB	Commerce and Economic Development Bureau
CreateHK	Create Hong Kong
CSI	CreateSmart Initiative
Panel	Panel on Information Technology and Broadcasting
Permanent Secretary	Permanent Secretary for Commerce and Economic Development (Communications and Technology)