

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));**

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- (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.