

## **CHAPTER 6**

**Home Affairs Bureau  
Leisure and Cultural Services Department**

**Hong Kong Arts Festival Society Limited**

**Audit Commission  
Hong Kong  
1 April 2019**

*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. 72 of the Director of Audit contains 8 Chapters which are available on our website at <https://www.aud.gov.hk>

Audit Commission  
26th floor, Immigration Tower  
7 Gloucester Road  
Wan Chai  
Hong Kong

Tel : (852) 2829 4210  
Fax : (852) 2824 2087  
E-mail : [enquiry@aud.gov.hk](mailto:enquiry@aud.gov.hk)

# HONG KONG ARTS FESTIVAL SOCIETY LIMITED

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# HONG KONG ARTS FESTIVAL SOCIETY LIMITED

## Executive Summary

1. The Hong Kong Arts Festival Society Limited (HKAFSL) is a non-profit-making organisation. It was established in 1972 under the then Companies Ordinance (Cap. 32) as a company limited by guarantee. The mission of HKAFSL is to present an annual arts festival (i.e. the Hong Kong Arts Festival — HKAF) of the highest artistic standard. In February 2019, HKAF entered into its 47<sup>th</sup> event. According to HKAFSL, HKAF has over the years become a major international arts festival. The festival includes arts programmes in different genres of performing arts, outreach and other arts education programmes conducted in community locations to promote arts appreciation and enhance engagement between artists and audience, and the Young Friends Scheme (YFS). Under YFS, full-time students of local secondary schools and tertiary institutions aged 25 or below are eligible to apply for membership (a YFS member is entitled to a total of two tickets for HKAF performances, rehearsals or arts programmes exclusively for YFS members).

2. HKAFSL is governed by an Executive Committee. Day-to-day operation of HKAFSL is under the management of an Executive Director. As at 31 December 2018, HKAFSL had a total of 58 staff (i.e. the Executive Director plus 57 other staff). In 2017-18, HKAFSL had a total income of \$127.7 million and a total expenditure of \$126.1 million. Of the total income, \$39 million was government subventions. The Leisure and Cultural Services Department (LCSD) oversees the government subventions provided to HKAFSL. The Audit Commission (Audit) has recently conducted a review of HKAFSL.

## Programme management

3. *Procurement of goods and services.* HKAFSL procures goods and services (e.g. materials for setting up stages, and services of programme crews) for the production of arts programmes. According to HKAFSL's procurement guidelines, at least 2 quotations should be obtained for expenses between \$5,000 and \$25,000, and at least 3 quotations should be obtained for expenses above \$25,000. Audit examined

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15 cases of procurement of goods and services in 2017-18 and found that (paras. 2.6 and 2.7):

- (a) in 2 cases (with expenses of \$6,144 and \$21,000), the required number of quotations had not been obtained (para. 2.7(a));
- (b) in the 15 cases, there were 13 types of goods and services procured. Of these 13 types, supplier lists had not been maintained for 3 types of goods and services (para. 2.7(b)); and
- (c) to achieve best possible value for money, the Government obtains more quotations than HKAFSL does for purchases with an amount of more than \$50,000 (i.e. the Government obtains at least 5 quotations) (para. 2.7(c)).

4. ***Management of programme crews.*** Programme crews are freelancers who provide services in the production of arts programmes (para. 2.10):

- (a) ***Room for better control on the use of manpower resources.*** Audit examined the number of programme crews commissioned for the 42 arts programmes staged in 2018 (i.e. 2018 programmes). Audit found that the manpower resources deployed to the programmes were very different. According to HKAFSL, this was the best judgement of the responsible staff. However, HKAFSL records did not document that such a judgement had been subjected to supervisory scrutiny. There was a risk that the manpower resources had not been optimally used. There is room for HKAFSL to enhance its documentation on the use of manpower resources (e.g. keeping the use of manpower resources under supervisory scrutiny and documenting such scrutiny) (paras. 2.2 and 2.12); and
- (b) ***Need to enhance documentation on payment of service fees.*** Programme crews are paid by the hour or session. For calculation of service fees, HKAFSL maintains a list of standard wage rates (per hour or per session) for different types of programme crews. Audit examined the service fee payments to 15 programme crews who were commissioned for the 2018 programmes and found that (paras. 2.13 and 2.14):

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- (i) a programme crew was paid for work under two different programmes simultaneously on one day in March 2018 (para. 2.14(a));
- (ii) the payments for 6 programme crews were in excess of the hours actually worked on a day in March 2018 (i.e. each worked 2.5 hours but was paid 4 hours) (para. 2.14(b)); and
- (iii) the service fee paid to a programme crew in March 2018 was calculated based on a wage rate higher than the standard rate (para. 2.14(c)).

Upon enquiry, in February and March 2019, HKAFSL provided Audit with further information which helped explain the above payments. However, such information had not been documented in records which supported the payments or, whilst documented, the records did not indicate that the information was the “justification” for the payment. Audit further noted that HKAFSL had not signed any service agreements stipulating the terms of engagement with the 15 programme crews (paras. 2.15 to 2.17).

5. ***Ticketing matters.*** In May 2018, HKAFSL reported to LCSD that, for the 46<sup>th</sup> HKAF in 2018, the total number of paid audience was 105,034, and that the attendance rate was 92% (para. 2.21):

- (a) ***Need to improve the reporting of attendance.*** According to HKAFSL, attendance rate is calculated by applying the formula: “number of paid audience” ÷ “number of tickets available for sale” × 100%. Audit noted that (para. 2.22):
  - (i) ***Complimentary tickets should have been excluded.*** According to the funding and service agreements (FSAs) signed between HKAFSL and LCSD, the number of paid audience should exclude all complimentary tickets. However, HKAFSL reported the number of paid audience in the 46<sup>th</sup> HKAF in 2018 as 105,034, which included 708 complimentary tickets provided to press media and guests. The number of paid audience should be 104,326 (i.e. 105,034 less 708) and, accordingly, the attendance rate for the

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arts programmes should be 91% instead of the 92% reported (para. 2.22(a)); and

- (ii) ***Audience attending other programmes were included.*** Included in the number of paid audience (i.e. 104,326 — see (i) above) were 2,960 paid audience who were not audience of HKAF arts programmes. These 2,960 people were paid audience of an HKAF outreach programme. Inclusion of these 2,960 people might not be proper (para. 2.22(b)); and
- (b) ***Need to better account for blocked seats.*** According to HKAFSL, blocked seats refer to seats reserved for specific purposes (e.g. for setting up control panels and for use by HKAFSL staff on duty at performance). Audit found that, for the 2018 programmes, 4,506 of the 21,746 blocked seats had subsequently been released. However, the FSAs did not specify any requirements about the use of blocked seats by HKAFSL. HKAFSL also has no written guidelines on blocked seats (e.g. the number of seats to be blocked, their designated purposes and when they should be released). It was therefore uncertain whether all blocked seats that could be released by HKAFSL had been released, or whether some seats had been blocked unnecessarily (paras. 2.24 and 2.27).

## Funding of the Hong Kong Arts Festival Society Limited

6. ***Income of HKAFSL.*** The three key sources of income of HKAFSL are sponsorship/donations, government subventions and income from ticket sales (para. 3.2):

- (a) ***Need to monitor the use of subventions by HKAFSL.*** According to HKAFSL, heavy reliance on sponsorship/donations may put sustainability of HKAFSL at risk as this income stream is dependent on many factors outside HKAFSL's control. According to the Home Affairs Bureau (HAB — the policy bureau of LCSD), it is the policy of HAB to encourage all arts groups/organisations to solicit more private sponsorship/donations and build up their audience base. Nevertheless, in March 2019, HAB informed Audit that from 2019-20, subject to the passage of the Appropriation Bill 2019 by the Legislative Council, LCSD will increase the recurrent subvention to HKAFSL. For the five years from 2018-19, LCSD will also provide an additional one-off funding each year to HKAFSL with specific



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policy intent (e.g. to groom local artists). LCSD will also review the effectiveness of the five-year funding. The LCSD needs to ensure that the review of the effectiveness of the five-year funding is carried out in a timely manner. It also needs to continue to monitor the use of government subventions by HKAFSL to ensure that HKAFs are delivered in accordance with FSAs (paras. 3.4 to 3.6); and

- (b) ***Some relevant factors not taken into account when setting ticket prices.*** According to HKAFSL practice, in setting ticket prices for HKAFs, it takes into account various factors (e.g. buying power/habits of different types of audience, audience satisfaction and venue locations, and popularity of programmes and venues). However, HKAFSL has not set any target proportion of costs to be recovered through ticket sales. HKAFSL's expenditure recovered through ticketing income dropped from 39% in 2013-14 to 30% in 2017-18. Moreover, while HKAFSL provides discounted tickets (50% discount on original ticket prices) to full-time students and people with disabilities, no similar concessions are available to senior citizens (paras. 3.7 and 3.8).

7. ***Conditions of subvention.*** LCSD enters into FSAs with HKAFSL on the government subventions (para. 1.11). Audit found that HKAFSL and LCSD need to better observe conditions of subvention:

- (a) ***Need for HKAFSL to better observe conditions of subvention.*** HKAFSL is required to observe the conditions of subvention stipulated in FSAs (para. 3.13):
  - (i) ***Need to maintain records of consultation with the Government on selecting the Chairman of the Executive Committee.*** According to FSAs, HKAFSL needs to consult the Government in advance in each and every selection of the Executive Committee's Chairman. Audit noted that, while there were changes of Chairman of the Executive Committee in 2012 and 2015, there were no records of advance consultation with the Government. Upon enquiry in February 2019, HKAFSL informed Audit that it had verbally consulted the Government representatives in advance on both occasions (para. 3.13(a)); and

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- (ii) ***Need to submit reports in a timely manner.*** According to FSAs, HKAFSL was required to submit reports/accounts (referred to as reports) to LCSD by specified dates each year. Audit found that the number of reports submitted after the deadlines increased from 1 in 2013-14 to 3 in 2017-18 (para. 3.13(b)); and
- (b) ***Need for LCSD to better oversee government subventions to HKAFSL.*** LCSD is responsible for overseeing the government subventions provided to HKAFSL (para. 3.14):
  - (i) ***Need to better ensure timely submission of reports.*** In 2013-14 to 2017-18, of the 26 reports required to be submitted to LCSD, 13 (50%) reports were submitted after the deadlines. Of these 13 reports, for 4 reports, 7 to 112 days had elapsed before LCSD's follow-up actions. For the remaining 9 reports, LCSD records did not indicate that LCSD had taken any follow-up actions (para. 3.14(a));
  - (ii) ***Need to maintain proper records of report submission.*** In 2013-14 to 2017-18, for 4 reports, LCSD could not locate the reports for Audit's examination. Moreover, for three years 2013-14 to 2015-16, LCSD did not record the dates of HKAFSL's submission of audited accounts. LCSD took the dates of signing the accounts by HKAFSL's auditor as the submission dates (para. 3.14(b)); and
  - (iii) ***Need to set more appropriate expected levels of performance.*** For each performance indicator in FSAs, an expected level of performance was set by LCSD in consultation with HKAFSL. In 2013-14 to 2017-18, the expected levels of performance were not met on 6 occasions (involving 6 indicators). LCSD records indicated that when HKAFSL did not attain an expected level in a year, the expected level was lowered in the ensuing year. The lowered expected level would not be raised again, or sometimes would even be further lowered, even though HKAFSL outperformed the expected levels in subsequent years (para. 3.14(c)).

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### Governance and administrative issues

8. ***Governance issues.*** The Executive Committee is the overall governing body of HKAFSL. As at 31 December 2018, HKAFSL had 10 Executive Committee members (paras. 4.2 and 4.3):

- (a) ***Need to improve practices on declaration of conflicts of interest.*** HKAFSL required every member of the Executive Committee and its supporting committees to sign an undertaking that, when he/she has a potential conflict of interest in a matter placed before the committees, he/she should make full disclosure of his/her interests, and that the undertaking should be signed upon joining the committees and, subsequently, after each annual general meeting. However, HKAFSL records indicated that in each year from 2014-15 to 2018-19, some members (35% to 54%) of the Executive Committee and its supporting committees did not sign the undertakings on declaration of conflicts of interest. Audit further noted that HKAFSL had not adopted a two-tier reporting system for the declaration of conflicts of interest (paras. 4.4 to 4.6); and
- (b) ***Need to obtain prior endorsement for salary adjustment.*** HKAFSL staff receive a monthly salary and may receive a year-end bonus. Each year, the Executive Director makes a proposal on a cost of living adjustment for monthly salary, and on the year-end bonus where appropriate. The proposal is submitted to the Finance Committee for discussion, and then to the Executive Committee for further discussion and endorsement. Audit noted that in 2015, details of the new salary scale had not been discussed and endorsed at Executive Committee meetings before the new salary scale was implemented (paras. 4.7, 4.8 and 4.10).

9. ***Administrative issues.*** As at 31 December 2018, HKAFSL had 58 staff, which comprised 18 (31%) permanent staff and 40 (69%) contract staff (para. 4.13):

- (a) ***Need to take measures to address high staff turnover rate.*** Audit analysed changes in the number of HKAFSL staff from 2016 to 2018 and noted that, in each year, 22% to 34% of staff left HKAFSL, and 29% to 51% of staff had newly joined HKAFSL for less than one year. High staff turnover rate is not conducive to operational efficiency and fulfilling the mission of HKAFSL (paras. 4.14 and 4.16); and

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- (b) ***Need to promptly report details about non-resident entertainers to the Inland Revenue Department.*** Every year, HKAFSL engages local and overseas artists to perform in HKAF. According to the Inland Revenue Ordinance (Cap. 112) and the Inland Revenue Department (IRD)’s information pamphlet, for a non-resident entertainer (i.e. overseas artist) (para. 4.17):
- (i) the sums received from performances in Hong Kong are chargeable to Hong Kong Profits Tax (para. 4.17(a)); and
  - (ii) the person who paid the sums (i.e. the Hong Kong payer) is responsible for completing the IRD’s form “IR623 — Notification of Arrival in Hong Kong of Non-resident Entertainer(s)/Sportsmen” (the IR623 form) to provide details about the non-resident entertainer and report the gross amount payable to him/her. The Hong Kong payer should complete the IR623 form immediately when the non-resident entertainer arrives in Hong Kong (para. 4.17(b) and (c)).

Audit noted that as at 31 January 2019, of the 42 performance contracts of overseas artists engaged by HKAFSL for the 46<sup>th</sup> HKAF in 2018, for 29 (69%) performance contracts, the IR623 forms had not been submitted to IRD. In March 2019, HKAFSL informed Audit that it had submitted the outstanding IR623 forms for the 29 performance contracts in February and March 2019 (paras. 4.18 and 4.21).

## Audit recommendations

10. **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 Executive Director, Hong Kong Arts Festival Society Limited should:**

- (a) **take measures to ensure that the quotation requirements as laid down in the HKAFSL’s procurement guidelines are complied with (para. 2.8(a));**

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- (b) **consider maintaining a supplier list for each individual type of goods and services (para. 2.8(c));**
- (c) **consider obtaining more quotations in procuring goods and services involving larger amounts and keep under review the need for setting a financial limit on procurement, exceeding which tender procedures have to be followed (para. 2.8(d));**
- (d) **take measures to enhance documentation on the use of manpower resources in the production of arts programmes (para. 2.18(a));**
- (e) **enhance documentation on the payment of service fees to programme crews (para. 2.18(b));**
- (f) **consider the need for signing service agreements with programme crews, having regard to the need for enhancing accountability and control on payment of service fees (para. 2.18(c));**
- (g) **clarify with LCSD the definition of paid audience and attendance rate and report accordingly to LCSD (para. 2.31(a));**
- (h) **draw up written guidelines on the use of blocked seats to ensure that the number of blocked seats is kept to a minimum and blocked seats are released as soon as possible and as far as possible (para. 2.31(b));**
- (i) **report to LCSD periodically information on blocked seats, including the number of seats blocked and the number of blocked seats subsequently released (para. 2.31(c));**
- (j) **taking into account all relevant factors, review the practices on setting ticket prices for HKAF programmes (para. 3.10);**
- (k) **maintain records of the consultation with the Government regarding the selection of the Chairman of the Executive Committee (para. 3.17(a));**
- (l) **step up efforts to ensure that reports are submitted to LCSD in a timely manner in accordance with FSAs (para. 3.17(b));**

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- (m) remind members of the Executive Committee and the supporting committees to sign and submit undertakings on declaration of conflicts of interest (para. 4.11(a));
  - (n) consider adopting a two-tier reporting system for declaration of conflicts of interest (para. 4.11(b));
  - (o) seek the Executive Committee's endorsement of the details of salary revisions in future (para. 4.11(c));
  - (p) take effective measures to address the high staff turnover rate, taking into account staff's reasons for leaving HKAFSL (para. 4.22(a)); and
  - (q) ensure that IR623 forms are promptly submitted when non-resident entertainers arrive in Hong Kong (para. 4.22(b)).
11. Audit has *recommended* that the Director of Leisure and Cultural Services should:
- (a) specify in FSAs whether paid audience of programmes other than HKAF arts programmes should be included in the “number of paid audience” (para. 2.32);
  - (b) ensure that the review of the effectiveness of the time-limited subvention to HKAFSL is carried out in a timely manner (para. 3.9(a));
  - (c) continue to monitor the use of government subventions by HKAFSL to ensure that HKAFs are delivered in accordance with FSAs (para. 3.9(b));
  - (d) take follow-up actions on late submission of reports (e.g. ascertain why the reports are not submitted on time and urge for their timely submission) by HKAFSL (para. 3.18(a));
  - (e) maintain proper records of reports submitted by HKAFSL, including the date of submission (para. 3.18(b)); and

## **Executive Summary**

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- (f) in consultation with HKAFSL, consider revising the expected levels of performance for indicators in FSAs, taking into account the actual performance results (para. 3.18(c)).

### **Response from Hong Kong Arts Festival Society Limited and the Government**

12. The Executive Director, Hong Kong Arts Festival Society Limited and the Director of Leisure and Cultural Services agree 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 It is the Government's policy to create an environment conducive to artistic expression and creation, and wide participation in creative cultural activities and performances. Under this policy, insofar as performing arts are concerned, the Government:

- (a) provides and maintains facilities to meet the needs of the arts community and the public, presents cultural and entertainment programmes for the development of performing arts, and organises audience building activities (including exhibitions, lectures, workshops, training courses and performances) in the community and at schools to promote appreciation of performing arts through the Leisure and Cultural Services Department (LCSD) (Note 1); and
- (b) provides funding to promote and develop performing arts in Hong Kong, through:
  - (i) **LCSD.** LCSD provides regular funding to the Hong Kong Arts Festival Society Limited (HKAFSL) (see para. 1.4); and

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**Note 1:** *In 2010, the Audit Commission (Audit) conducted a review entitled "Management of performing arts venues" (Chapter 7 of the Director of Audit's Report No. 55). In 2016, Audit conducted a review entitled "Audience building activities for performing arts" (Chapter 10 of the Director of Audit's Report No. 67).*

- (ii) *the Home Affairs Bureau (HAB)*. HAB provides regular funding to the Hong Kong Academy for Performing Arts (Note 2), the Hong Kong Arts Development Council (Note 3), and nine major performing arts groups (Note 4). With a view to widening the source of funding of relevant arts groups/organisations and promoting a culture of donation, HAB also operates an Art Development Matching Grants Scheme (Note 5) (see para. 1.9(a)).

1.3 In 2008, to meet the long-term infrastructural and development needs of Hong Kong's arts and culture, the West Kowloon Cultural District Authority was established as a body corporate under the West Kowloon Cultural District Authority Ordinance (Cap. 601) to implement the West Kowloon Cultural District project. The project, which is in progress, aims to develop an integrated arts and cultural district with core arts and cultural facilities, retail, dining and entertainment facilities, and communal and ancillary facilities on a harbourfront site in West Kowloon.

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**Note 2:** *Established in 1984 under the Hong Kong Academy for Performing Arts Ordinance (Cap. 1135), the Hong Kong Academy for Performing Arts aims to foster and provide training, education and research in the performing arts and related technical arts. In 2016, Audit conducted a review entitled "Hong Kong Academy for Performing Arts" (Chapter 5 of the Director of Audit's Report No. 66).*

**Note 3:** *Established in 1995 under the Hong Kong Arts Development Council Ordinance (Cap. 472), the Hong Kong Arts Development Council is a statutory body set up by the Government to support the broad development of arts in Hong Kong. Its major roles include grant allocation, policy and planning, advocacy, promotion and development, and programme planning. In 2009, Audit conducted a review entitled "Hong Kong Arts Development Council" (Chapter 5 of the Director of Audit's Report No. 52).*

**Note 4:** *The nine major performing arts groups are: (a) Chung Ying Theatre Company; (b) City Contemporary Dance Company; (c) Hong Kong Ballet; (d) Hong Kong Chinese Orchestra; (e) Hong Kong Dance Company; (f) Hong Kong Philharmonic Orchestra; (g) Hong Kong Repertory Theatre; (h) Hong Kong Sinfonietta; and (i) Zuni Icosahedron. In 2010, Audit conducted a review entitled "Hong Kong Chinese Orchestra Limited" (Chapter 6 of the Director of Audit's Report No. 54).*

**Note 5:** *In June 2016, HAB launched the Art Development Matching Grants Pilot Scheme. In June 2018, the Scheme was renamed as the Art Development Matching Grants Scheme.*

### ***HKAFSL***

1.4 HKAFSL, which receives regular funding from LCSD (see para. 1.2(b)(i)), is a non-profit-making organisation. It was established in 1972 under the then Companies Ordinance (Cap. 32) (Note 6) as a company limited by guarantee (Note 7). HKAFSL is tax-exempted under section 88 of the Inland Revenue Ordinance (Cap. 112). The mission of HKAFSL is to present an annual arts festival (i.e. Hong Kong Arts Festival — HKAF) of the highest artistic standard which will:

- (a) enrich the cultural life of Hong Kong;
- (b) act as a catalyst and arouse wider interest in the arts; and
- (c) encourage cross-cultural fertilisation.

### ***HKAF***

1.5 With the first event launched in 1973, HKAF entered into its 47<sup>th</sup> event in February 2019. According to HKAFSL, HKAF has over the years become a major international arts festival, which comprises different programmes and activities:

- (a) ***Arts programmes.*** Arts programmes are delivered normally between February and March each year:
  - (i) the programmes present local artists and ensembles of renown, as well as renowned international ones, in different genres of performing arts such as Western opera, Chinese opera, classical music, jazz, world music, dance and theatre;

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**Note 6:** *The Companies Ordinance was replaced by the new Companies Ordinance (Cap. 622) which took effect in March 2014.*

**Note 7:** *A company limited by guarantee does not have a share capital. The parties involved in setting up the company are guarantee members and not shareholders. Instead of investing capital, the members guarantee to contribute a predetermined sum to the company to cover its liabilities in the event of winding up of the company.*

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- (ii) the programmes also showcase emerging local artists and collaborate with Hong Kong's own creative talent in local productions, including theatre, chamber opera, music and contemporary dance; and
- (iii) for the 46<sup>th</sup> HKAF in 2018, a total of 42 programmes (comprising 130 performances) were staged. The 42 programmes are shown at Appendix A.

Photographs 1 and 2 show examples of arts programmes of the 46<sup>th</sup> HKAF in 2018. According to HKAFSL, it has over the years presented top international artists and ensembles across multiple genres in HKAFs (see Appendix B);

### Photograph 1

**A theatre performance presented  
in the 46<sup>th</sup> HKAF in 2018**



*Source: HKAFSL records*

### Photograph 2

**A Chinese opera presented  
in the 46<sup>th</sup> HKAF in 2018**



*Source: HKAFSL records*

- (b) ***Outreach and other arts education programmes.*** With a view to nurturing people's interest in the arts, HKAFSL has offered outreach and other arts education programmes alongside its arts programmes. Outreach programmes, referred to as "Festival PLUS", are conducted in community locations during and beyond the HKAF period to promote arts appreciation and enhance engagement between artists and audience. Programmes under "Festival PLUS" include films, backstage visits, exhibitions, meet-the-artist sessions and guided cultural tours. HKAFSL also organises other arts education programmes to enhance the appreciation of performing arts, including student showcases, pre-performance talks, in-school workshops and lecture demonstrations led by international and local artists; and
- (c) ***Young Friends Scheme (YFS).*** Under YFS, full-time students of local secondary schools and tertiary institutions aged 25 or below are eligible to apply for YFS membership. Upon paying an annual membership fee

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(Note 8), a member is entitled to a total of two tickets for HKAF performances, rehearsals or Young Friends Specials (i.e. arts programmes exclusively for YFS members). Members could also participate in workshops, talks and backstage tours. In 2017-18 (Note 9), YFS had a total of some 6,300 members (from 156 secondary schools and 41 tertiary institutions).

1.6 Table 1 shows the number of programmes and activities organised by HKAFSL and the number of members of YFS for years 2013-14 to 2017-18.

**Table 1**  
**Number of HKAFSL programmes and**  
**activities and YFS members**  
**(2013-14 to 2017-18)**

	2013-14	2014-15	2015-16	2016-17	2017-18
Number of HKAF programmes (Number of performances)	53 (133)	48 (133)	50 (117)	51 (127)	42 (130)
Number of outreach and other arts education programmes/activities	263	262	305	574	418
Number of YFS members	7,569	6,876	6,519	6,300	6,382

*Source: HKAFSL and LCSD records*

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**Note 8:** *In 2017-18, YFS annual membership fees for students of secondary schools and tertiary institutions were \$80 and \$120 respectively.*

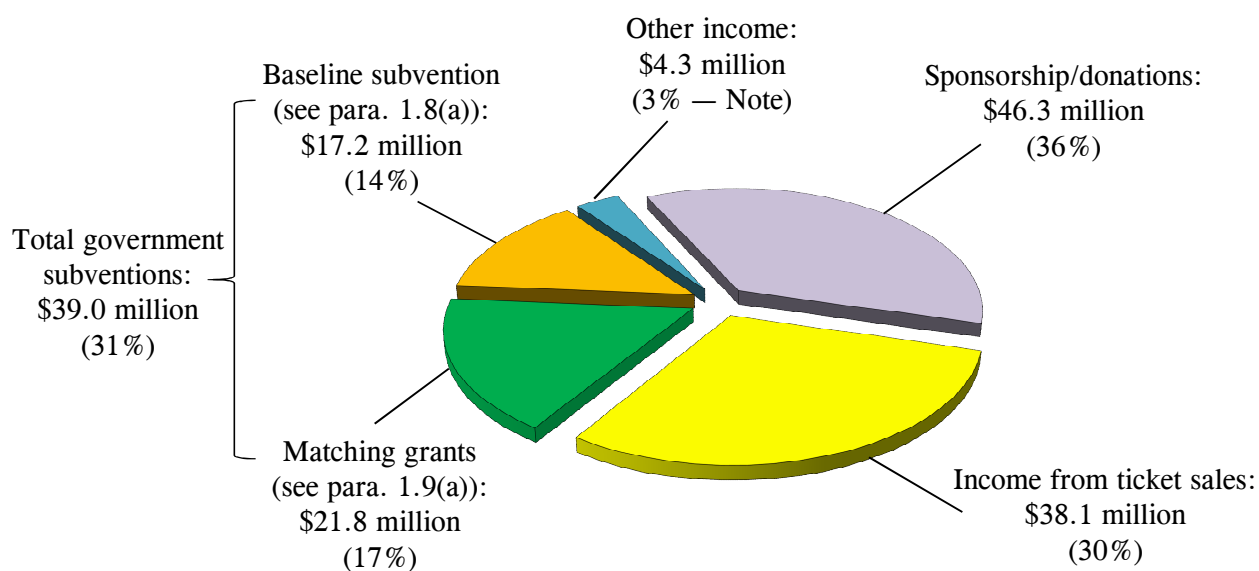
**Note 9:** *The financial year of HKAFSL commences on 1 July and ends on 30 June of the ensuing year. The financial year in this Audit Report refers to the HKAFSL's financial year unless otherwise specified.*

### *Income and expenditure of HKAFSL*

1.7 In 2017-18, HKAFSL had a total income of \$127.7 million and a total expenditure of \$126.1 million. Figures 1 and 2 provide breakdowns of the income and expenditure of HKAFSL for 2017-18 respectively.

**Figure 1**

#### **Income of HKAFSL (2017-18)**

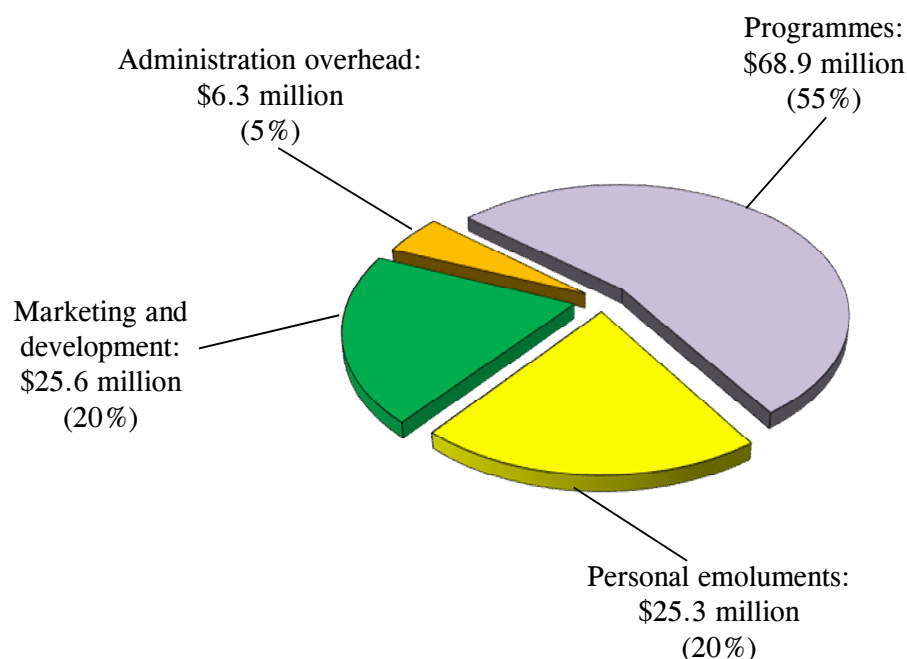


*Source: HKAFSL records*

*Note: Other income included advertising income from publications and interest income.*

Figure 2

**Expenditure of HKAFSL  
(2017-18)**



Source: HKAFSL records

### ***Government subventions***

1.8 Government subventions are provided to HKAFSL by LCSD (see para. 1.2(b)(i)). Two types of subventions have been provided in recent years:

- (a) ***Baseline subvention.*** This is a recurrent subvention, which has been set at \$17.2 million per annum since 2009-10; and
- (b) ***Time-limited/one-off subvention.*** To enhance HKAFSL programmes, additional funding has been provided on top of the baseline subvention on a time-limited basis (i.e. for a specific period of time). For years 2010-11 to 2014-15, HKAFSL was granted a five-year time-limited subvention of \$16 million per annum. Upon the expiry of the time-limited subvention in 2015-16, a one-off subvention of \$16 million was granted to bridge the funding gap before the launch of the matching grants scheme in 2016 (see para. 1.9(a)). From 2018-19 onwards, HKAFSL has been granted another



five-year time-limited subvention of \$8 million per annum (see also item 2 of Table 2 in para. 1.10).

1.9 In addition to LCSD subventions, other government subventions have also been provided to HKAFSL:

- (a) **Matching grants.** Since 2016, HAB has provided matching grants under the Art Development Matching Grants Scheme (see Note 5 to para. 1.2(b)(ii)). The grants are provided, on a dollar-for-dollar matching basis, to arts groups/organisations for eligible private sponsorship/donations received by them (Note 10). In 2018, the maximum amount of grants is capped at 20% of the total annual income as reflected in the last audited accounts or \$30 million, whichever is lower (Note 11). Since 2016, HKAFSL has been provided, through LCSD (Note 12), with grants under the Scheme; and
- (b) **Project-based subvention.** In 2016-17, HAB provided through LCSD (Note 13) a one-off funding to HKAFSL for three special programmes (Note 14) to celebrate the 20<sup>th</sup> anniversary of the establishment of the Hong Kong Special Administrative Region in 2017.

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**Note 10:** *The sponsorship/donations eligible for matching under the Art Development Matching Grants Scheme include cash sponsorship/donations received from sources other than government funding with expenses incurred in obtaining the sponsorship/donations netted off, excluding sponsorship/donations received in return for purchase of goods/services by sponsors/donors directly or indirectly.*

**Note 11:** *Before 2018, the maximum amount of grants was capped at 20% of the total annual income as reflected in the last audited accounts.*

**Note 12:** *HKAFSL is one of the arts groups/organisations eligible for grants under the Art Development Matching Grants Scheme. Since LCSD has been providing subventions to HKAFSL, it has also taken up the administration of the HAB's matching grants for HKAFSL.*

**Note 13:** *Since LCSD has been providing subventions to HKAFSL, it has also taken up the administration of the HAB's project-based subvention for HKAFSL.*

**Note 14:** *The three special programmes were: (a) concerts of the Sascha Goetzel and the Borusan Istanbul Philharmonic Orchestra; (b) performances of Dream of the Red Chamber co-produced with the San Francisco Opera; and (c) performances and a series of related outreach activities of the Sound Sculpture "Chorus" by Ray Lee.*

## Introduction

1.10 Table 2 shows the details of government subventions provided to HKAFSL for years 2013-14 to 2017-18.

**Table 2**  
**Government subventions to HKAFSL**  
**(2013-14 to 2017-18)**

<b>Government subventions</b>	<b>2013-14</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>
1. LCSD baseline subvention (\$ million)	17.2	17.2	17.2	17.2	17.2
2. LCSD time-limited/one-off subvention (see para. 1.8(b)) (\$ million)	16.0	16.0	16.0	0	0
3. HAB matching grants (\$ million)	N.A.			23.4 (Note 1)	21.8 (Note 1)
4. HAB project-based subvention (\$ million)	0			11.1 (Note 2)	0
<b>Total (\$ million)</b>	<b>33.2</b>	<b>33.2</b>	<b>33.2</b>	<b>51.7</b>	<b>39.0</b>
Total income of HKAFSL (\$ million)	106.0	116.9	109.2	135.2	127.7
Government subventions as percentage of total income	31 %	28 %	30 %	38 %	31 %

*Source: Audit analysis of HKAFSL records*

*Note 1: HAB matching grants have been provided to arts groups/organisations since 2016 (see Note 5 to para. 1.2(b)(ii)).*

*Note 2: HAB project-based subvention was provided to HKAFSL in 2016-17 (see para. 1.9(b)).*

1.11 ***Funding and service agreements (FSAs).*** LCSD enters into FSAs with HKAFSL on the various government subventions (see Table 2 in para. 1.10). According to the FSAs, HKAFSL is required to observe terms and conditions such as:

- (a) using government subventions solely for the implementation of the activities as agreed with the Government and not for any administration expenses;
- (b) implementing the committed level of activities;
- (c) adopting proper internal controls to ensure that subventions are used in an accountable manner;
- (d) making due efforts to ensure value for money and cost-effectiveness in using subventions; and
- (e) submitting reports (e.g. reports on the implementation of activities) and audited annual accounts to the Government.

1.12 ***Monitoring by LCSD.*** According to LCSD, it oversees the government subventions provided to HKAFSL (see paras. 1.8 and 1.9). In this regard, the LCSD's key responsibilities are:

- (a) reviewing the HKAFSL's budgets and proposals for the LCSD's baseline subvention and time-limited subvention;
- (b) assessing the HKAFSL's applications for the HAB's matching grants and project-based subvention;
- (c) attending meetings of the HKAFSL's Executive Committee (see para. 1.13) as an observer; and
- (d) reviewing reports and audited annual accounts of HKAFSL.

### *Organisation of HKAFSL*

1.13 HKAFSL is governed by an Executive Committee. According to the Memorandum and Articles of Association of HKAFSL, the Executive Committee shall consist of members of independent standing and whose appointments shall be appropriate to the aims and status of the company. The Executive Committee is responsible for the overall management of the affairs, administration and business of HKAFSL, and is the overall governing body. As at 31 December 2018, the Executive Committee had a total of 10 members (Note 15). Three committees (namely the Development Committee, the Finance Committee and the Programme Committee) have been established to support the Executive Committee. These supporting committees consist of some of the members of the Executive Committee, management of HKAFSL and individuals of various backgrounds. The major functions of the supporting committees are as follows:

- (a) ***Development Committee.*** Provides assistance to extend and enlarge HKAFSL's sponsor/donor network and advice on possible specific interests of potential sponsors/donors which aligns with HKAFSL's mission and programmes, and supports social and promotional activities organised from time to time;
- (b) ***Finance Committee.*** Reviews budgets and estimates, draws the Executive Committee's attention to any major financial concerns, and provides strategic advice to HKAFSL's management on long-term financial issues and major administrative matters such as leasing of premises and senior staff movements; and
- (c) ***Programme Committee.*** Provides expert advice on programming proposals and programme strategy, and assists and supports HKAFSL's management in its mission to present a rich selection of works of high quality and interest to audience in Hong Kong.

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**Note 15:** *According to the Memorandum and Articles of Association of HKAFSL, members of the Executive Committee are elected at annual general meetings of HKAFSL. The 10 members were from various backgrounds (e.g. arts specialists, accountants, entrepreneurs and solicitors).*

1.14 Day-to-day operation of HKAFSL is conducted through four departments (i.e. Development Department, Human Resource and Administration/Accounts Department, Marketing Department and Programme Department) under the management of an Executive Director. An extract of the organisation chart of HKAFSL is at Appendix C. As at 31 December 2018, HKAFSL had a total of 58 staff (i.e. the Executive Director plus 57 staff of the four departments).

### Audit review

1.15 In October 2018, Audit commenced a review of HKAFSL (Note 16). The audit review has focused on the following areas:

- (a) programme management (PART 2);
- (b) funding of HKAFSL (PART 3); and
- (c) governance and administrative issues (PART 4).

Audit has found room for improvement in the above areas and has made recommendations to address the issues.

### General response from Hong Kong Arts Festival Society Limited

1.16 The Executive Director, Hong Kong Arts Festival Society Limited has said that:

- (a) HKAFSL would like to thank Audit for all the helpful recommendations and for the patience and understanding during the audit period, which coincided with the run-up to and duration of the 47<sup>th</sup> HKAF in 2019;

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**Note 16:** *According to FSAs (see para. 1.11), the Director of Audit is entitled to carry out value for money scrutiny on the HKAFSL's accounts and records.*

## **Introduction**

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- (b) as a small and mission-driven organisation with limited resources, HKAFSL does not seek to match civil service norms in administrative processes and record keeping; and
- (c) HKAFSL's focus is on producing exceptional returns on the investment made in funding received, with due diligence and regard to governance in its operations.

## **Acknowledgement**

1.17 Audit would like to acknowledge with gratitude the full cooperation of the staff of HKAFSL and LCSD during the course of the audit review.

## PART 2: PROGRAMME MANAGEMENT

2.1 This PART examines HKAFSL's programme management, focusing on the following areas:

- (a) procurement of goods and services (paras. 2.5 to 2.9);
- (b) management of programme crews (paras. 2.10 to 2.19); and
- (c) ticketing matters (paras. 2.20 to 2.34).

### ***Background***

2.2 HKAF presents a range of arts programmes normally between February and March every year. For the 46<sup>th</sup> HKAF in 2018, a total of 42 programmes (hereinafter referred to as the 2018 programmes) with 130 performances (see Appendix A) were staged between 23 February and 24 March 2018.

2.3 ***Programme formulation.*** According to HKAFSL, for programme formulation, the key objective is to present a balanced programme (Note 17) which shows works not frequently seen in Hong Kong. HKAFSL records indicated that, in relation to the formulation of the 2018 programmes and procurement of goods and services for the programmes, the following procedures were carried out:

- (a) before an HKAF, the Programme Department (see Appendix C) worked out a number of programme proposals in consultation with the Executive Director (see para. 1.14);

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**Note 17:** *According to HKAFSL, a balanced programme should include both classical and contemporary work, showcase artistic trends, and contribute to the local arts scene by, among other considerations, presenting works not frequently seen in Hong Kong. Other objectives of programme formulation include staging programmes from around the world and showcasing local talents.*

## Programme management

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- (b) the Programme Department submitted the programme proposals to the Programme Committee (see para. 1.13(c)) for consultation. For proposals with a contract sum above \$4 million, the Finance Committee (see para. 1.13(b)) was also consulted;
- (c) basing on the programme proposals and taking into account the views of the Programme Committee and the Finance Committee (where applicable), the Programme Department formulated a programme plan. The plan specified details of the programmes to be presented, including details of artists/artist groups to be engaged (for simplicity, hereinafter collectively referred to as artists unless otherwise stated) and production details;
- (d) the programme plan was submitted to the Executive Director for approval, and then to the Executive Committee (see para. 1.13) for endorsement (Note 18); and
- (e) in accordance with the programme plan, HKAFSL made arrangements to procure the artist services (i.e. engagement of artists) as well as other goods and services such as hotel accommodation for overseas artists and materials for setting up stages.

2.4 ***Programme evaluation.*** According to HKAFSL records, HKAFSL obtained feedback on programmes for evaluation. For the 2018 programmes, HKAFSL obtained feedback through soliciting input from members of the Executive Committee and the supporting committees who had attended the performances, studying reviews in press media (Note 19), and receiving comments of audience at performance venues.

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**Note 18:** *The procedures in paragraph 2.3(a) to 2.3(d) were repeated for amendments to the programme plan (e.g. replacing a programme in the plan by another programme).*

**Note 19:** *Complimentary tickets were provided to press media for individual programmes.*



## Procurement of goods and services

2.5 HKAFSL procures artist services and other goods and services in accordance with the programme plan (see para. 2.3(e)).

### *Need to improve practices in procuring goods and services*

2.6 HKAFSL procures goods and services for the production of arts programmes. These goods and services include, for example, air tickets, hotel accommodation, materials for setting up stages, printing services and services of programme crews. According to the HKAFSL's procurement guidelines:

- (a) at least 2 quotations should be obtained for expenses between \$5,000 and \$25,000; and
- (b) at least 3 quotations should be obtained for expenses above \$25,000.

2.7 Audit examined 15 cases (Note 20) of procurement of goods and services by HKAFSL in 2017-18 and found that:

- (a) ***Required number of quotations not obtained.*** Of the 15 cases, in 2 cases (with expenses of \$6,144 and \$21,000), the required number of quotations had not been obtained (see Table 3). For these 2 cases, there was no documentation showing the justifications and approval for deviating from the quotation requirement;

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**Note 20:** *The 15 cases were selected on a random basis. The expenses of the 15 cases totalled some \$2.4 million. For individual cases, the expenses ranged from \$6,144 to \$1.1 million (the largest amount of expense (for air tickets) of goods and services in 2017-18).*

**Table 3****Required number of quotations not obtained for 2 cases of procurement  
(2017-18)**

Goods/services	Amount	Number of quotations	
		Required	Obtained
Stage props	\$6,144	2	0 (Note)
Stage tools	\$21,000	2	0 (Note)

*Source: Audit analysis of HKAFSL records*

*Note: No quotations had been obtained and the goods/services were purchased directly from suppliers.*

- (b) ***Need to maintain lists of suppliers.*** In the 15 cases, there were 13 types of goods and services procured (Note 21). Of these 13 types, supplier lists had not been maintained for 3 types of goods and services. To facilitate obtaining the required number of quotations, HKAFSL needs to maintain a supplier list for each individual type of goods and services; and
- (c) ***Need to review procurement practices.*** Table 4 shows the procurement practices of HKAFSL and the Government. The Government's procurement practices aim to achieve best possible value for money and maintain open and fair competition. For example, as shown in the Table, the Government obtains more quotations than HKAFSL does for purchases with an amount of more than \$50,000. HKAFSL needs to make reference to the Government's practices in obtaining more quotations in procuring goods and services involving larger amounts. HKAFSL also needs to keep under review the need for setting a financial limit on procurement, exceeding which tender procedures have to be followed (see Table 4).

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**Note 21:** *The 13 types of goods and services procured were advertising, air tickets, audio equipment, chauffeur services, design services, hotel accommodation, insurance, lighting, photography, printing services, props, tools, and stage set-up.*

Table 4

**Procurement practices of HKAFSL and the Government**

Values of goods and services	HKAFSL	Government
< \$5,000	No quotation required	At least 2 quotations (Note)
\$5,000 to \$25,000	At least 2 quotations	
> \$25,000 to \$50,000	At least 3 quotations	
> \$50,000 to \$1.4 million		At least 5 quotations
> \$1.4 million		Tender

*Source: HKAFSL records and Government Stores and Procurement Regulations*

*Note: According to the Government Stores and Procurement Regulations, public officers may make minor purchases to meet immediate needs for goods/services with value less than \$5,000 (if the authorising officer is satisfied that such purchases are essential and the rates obtained are reasonable, and certifies the purchases on file).*

## Audit recommendations

**2.8 Audit has *recommended* that the Executive Director, Hong Kong Arts Festival Society Limited should:**

- (a) **take measures to ensure that the quotation requirements as laid down in the HKAFSL's procurement guidelines are complied with;**
- (b) **in circumstances where the quotation requirements are not complied with (e.g. due to limited number of suppliers), document the justifications for the non-compliance and ensure that HKAFSL staff obtain the approval of the Executive Director;**
- (c) **consider maintaining a supplier list for each individual type of goods and services; and**
- (d) **making reference to the Government's procurement regulations:**

## **Programme management**

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- (i) consider obtaining more quotations in procuring goods and services involving larger amounts; and
- (ii) keep under review the need for setting a financial limit on procurement, exceeding which tender procedures have to be followed.

## **Response from Hong Kong Arts Festival Society Limited**

2.9 The Executive Director, Hong Kong Arts Festival Society Limited agrees with the audit recommendations.

## **Management of programme crews**

2.10 Programme crews are freelancers who provide services in the production of arts programmes (see para. 1.5(a)). According to HKAFSL, programme crews are paid by the hour or session. HKAFSL commissions their services through procurement (i.e. procurement of goods and services — see para. 2.6). For the 2018 programmes, 229 programme crews (e.g. stage crews, dressers and lighting crews) were commissioned.

### ***Room for better control on the use of manpower resources***

2.11 According to HKAFSL, on the use of manpower resources, it takes into consideration various determining factors (i.e. requirements specified in the artist's contract, nature of the production, performance venues, other technical considerations, and the overall project budget).

2.12 Audit examined the number of programme crews commissioned for the 2018 programmes and found that there was significant variation in the use of manpower resources between different programmes. Case 1 shows an example.

**Case 1**

**Commissioning programme crews for two programmes  
(2018 programmes)**

1. Programme A and Programme B were overseas programmes (i.e. performed by overseas artists) presented in the 46<sup>th</sup> HKAF in 2018. According to HKAFSL:

- (a) Programme A was a theatre programme, which had one fixed set with built-in effects. It involved a smaller cast (i.e. 38 artists) in contemporary dress; and
- (b) Programme B was a large-scale dance programme, which had multiple scene changes with different lighting effects. It involved a larger cast (i.e. 130 artists) requiring multiple changes of fantastical costumes.

For the production of the programmes, HKAFSL commissioned different numbers of programme crews, as follows:

	<b>Programme A</b>	<b>Programme B</b>
Programme type	Theatre	Dance
Number of performances	14	7
Number of artists	38	130
Programme crews commissioned by HKAFSL:		
• Number of basic crews	23	59
• Number of chief crews	3	1
Ratio of chief crews to basic crews	1:8	1:59

2. Regarding the large variance in the use of manpower resources (i.e. the number of programme crews and the ratio of “chief crews to basic crews”) between the two programmes, HKAFSL informed Audit in February 2019 that:

- (a) the programmes were different. The crews required for each production was determined by the scale and complexity of the work; and
- (b) HKAFSL staff used their best judgement to deliver the work in an efficient and effective manner within budget provision.

***Audit comments***

3. The manpower resources deployed to the two programmes were very different. While according to HKAFSL, this was the best judgement of the responsible staff (see para. 2(b) above), HKAFSL records did not document that such a judgement had been subjected to supervisory scrutiny. There was a risk that the manpower resources had not been optimally used. There is room for HKAFSL to enhance its documentation on the use of manpower resources (e.g. keeping the use of manpower resources under supervisory scrutiny and documenting such scrutiny).

*Source: Audit analysis of HKAFSL records*

### *Need to enhance documentation on payment of service fees*

2.13 Programme crews are paid by the hour or session (see para. 2.10). According to HKAFSL records, programme crews recorded details of their services (e.g. number of hours worked) in timesheets. For calculation of service fees, HKAFSL maintains a list of standard wage rates (per hour or per session) for different types of programme crews. Service fees paid to programme crews were based on their standard wage rates and the timesheets they submitted.

2.14 Audit examined the service fee payments to 15 programme crews (Note 22) who were commissioned for the 2018 programmes and found the following irregularities:

- (a) ***Payment for work under two different programmes simultaneously.*** According to the timesheets, a programme crew claimed to have worked under two different programmes simultaneously on one day in March 2018. In the event, the programme crew was paid twice for the same period of time;
- (b) ***Payment in excess of hours actually worked.*** According to the timesheets of 6 programme crews, each crew worked 2.5 hours on a day in March 2018. However, each crew was paid 4 hours; and
- (c) ***Non-standard wage rate.*** The service fee paid to a programme crew in March 2018 was calculated based on a wage rate which was higher than the standard rate.

2.15 Upon enquiry, HKAFSL informed Audit in February and March 2019 that:

- (a) regarding paragraph 2.14(a), the programme crew played different roles in the two programmes. For one programme, he was in a planning and supervisory role. Physical presence on the spot was not necessary. For

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**Note 22:** *Audit selected the 15 programme crews on a random basis. The 15 programme crews were technical crews who had participated in the production of theatre programmes, dance programmes and opera programmes.*

the other programme, he was helping out as a “hands-on crew”. It was possible for him to discharge duties under both programmes at the same time;

- (b) regarding paragraph 2.14(b), the 6 programme crews concerned were paid by the session. Hours worked were recorded only for additional control purpose. There was no overpayment; and
- (c) regarding paragraph 2.14(c), as marked on the timesheet, special skill was required as the programme crew had to operate a spotlight within a particularly narrow space in a technically sophisticated show.

2.16 Audit noted that the above information had not been documented in records which supported the payments (para. 2.15(a) and (b) refers) or, whilst documented, the records did not indicate that the information was the “justification” for the payment (para. 2.15(c) refers). In fact, for the case in paragraph 2.15(c), no mention had been made in the records as to how that particular higher rate was set. In Audit’s view, for better accountability and control on the payment of service fees, HKAFSL needs to enhance the documentation on payment of service fees.

2.17 Audit further noted that HKAFSL had not signed any service agreements stipulating the terms of engagement with the 15 programme crews (see para. 2.14). Upon enquiry, HKAFSL informed Audit in December 2018 that it was not the industry practice to do so. In Audit’s view, formally laying down the terms of engagement (e.g. wage rates and calculation of services fees) would protect the interests of both HKAFSL and programme crews, and could help prevent any misunderstandings in reporting service hours and in calculating service fees.

## Audit recommendations

2.18 **Audit has *recommended* that the Executive Director, Hong Kong Arts Festival Society Limited should:**

- (a) **take measures to enhance documentation on the use of manpower resources in the production of arts programmes;**

## **Programme management**

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- (b) **enhance documentation on the payment of service fees to programme crews; and**
- (c) **consider the need for signing service agreements with programme crews, having regard to the need for enhancing accountability and control on payment of service fees.**

## **Response from Hong Kong Arts Festival Society Limited**

2.19 The Executive Director, Hong Kong Arts Festival Society Limited agrees with the audit recommendations. She has said that regarding the use of manpower resources (see para. 2.12):

- (a) several levels of authority are involved, namely, the technical co-ordinator for the production reports to the technical manager, who works with the subject officer; and both report to the head of the Programme Department who has control of the budget; and thence to the Executive Director. The system incorporates professional judgement, accountability, supervision and control; and
- (b) HKAFSL staff derive job satisfaction from delivery of great performances within given constraints. They value respect for their professionalism, and the possibility of making impact and taking effective action. Therefore, management must be vigilant as to the amount of paperwork required so that staff do not opt for the better terms offered in employment in larger or government-related organisations.

## **Ticketing matters**

2.20 In the FSA (see para. 1.11) for 2017-18, the following indicators were set on paid audience and attendance rate:

- (a) the number of paid audience, excluding complimentary tickets, for HKAF was 72,000; and
- (b) the attendance rate for HKAF was 80%.



2.21 In May 2018, HKAFSL reported to LCSD that, for the 46<sup>th</sup> HKAF in 2018:

- (a) the total number of paid audience (i.e. number of ticket sold) was 105,034; and
- (b) the attendance rate was 92%.

Table 5 shows details of the HKAFSL's calculation.

**Table 5**

**Audience and attendance  
(46<sup>th</sup> HKAF in 2018)**

Type of tickets	Available (No.) (a)	Sold (No.) (b)	Percentage (c) = (b) ÷ (a) × 100%
Tickets for HKAF	111,482	102,074	<b>92%</b>
Tickets for "Festival PLUS"	N.A. (Note)	2,960	N.A.
Overall	N.A.	<b>105,034</b>	N.A.

*Source: Audit analysis of HKAFSL records*

*Note: "Festival PLUS" is an HKAF outreach programme (see para. 1.5(b)). According to HKAFSL, information on the total number of seats (involving ticketed and free programmes/events) was not available.*

***Need to improve the reporting of attendance***

2.22 According to HKAFSL, attendance rate is calculated by applying the formula: "number of paid audience" ÷ "number of tickets available for sale" × 100%. Audit noted that there is scope for improving the reporting of attendance of audience by HKAFSL to LCSD as follows:

- (a) ***Complimentary tickets should have been excluded.*** According to the FSAs, the number of paid audience should exclude all complimentary tickets. However, HKAFSL reported the number of paid audience in the

46<sup>th</sup> HKAF in 2018 as 105,034, which included 708 complimentary tickets provided to press media and guests. In Audit's view, the 708 complimentary tickets for press media and guests should be excluded from the number of paid audience:

- (i) the number of paid audience for HKAF should be 104,326 (i.e. 105,034 less 708) instead of 105,034 (the indicator of 72,000 paid audience (see para. 2.20(a)) was still met); and
  - (ii) the attendance rate for the arts programmes should be 91% (i.e.  $(102,074 - 708) \div 111,482 \times 100\%$ ) (see Table 5 in para. 2.21) instead of 92% (the indicator of 80% attendance rate (see para. 2.20(b)) was still met); and
- (b) *Audience attending other programmes were included.* Included in the number of paid audience (i.e. 104,326 — see (a)(i) above) were 2,960 paid audience (see Table 5 in para. 2.21) who were not audience of HKAF arts programmes. These 2,960 people were paid audience of the “Festival PLUS”, which is an HKAF outreach programme (see para. 1.5(b)). FSAs had not specified whether audience of programmes other than HKAF arts programmes should be included in the reporting of the number of paid audience. Inclusion of these 2,960 people might therefore not be proper.

2.23 Audit considers that HKAFSL needs to clarify with LCSD the definition of paid audience and attendance rate, and report accordingly to LCSD. Audit also considers that LCSD needs to specify in FSAs whether programmes other than HKAF arts programmes should be taken into account in calculating the number of paid audience.

### *Need to better account for blocked seats*

2.24 According to HKAFSL, blocked seats refer to seats reserved for specific purposes (e.g. for setting up control panels and for use by HKAFSL staff on duty at performance). For the arts programmes of the 46<sup>th</sup> HKAF in 2018, a total of 21,746 seats were initially blocked (see Table 6).

Table 6

**Seat arrangements  
(2018 programmes)**

Venue capacity/seats	Number of seats
Capacity of venues (Note 1) (a)	128,722
Planned purposes of blocked seats:	
Temporary	13,744 (63 %)
Technical (e.g. for setting up control panels)	2,198 (10 %)
For YFS members (Note 2)	4,146 (19 %)
For HKAFSL staff on duty	488 (2 %)
For wheelchairs	440 (2 %)
Others (Note 3)	730 (4 %)
(b) Total	21,746 (100 %)
Planned number of tickets available for sale (c) = (a) – (b)	106,976 (Note 4)

Source: Audit analysis of HKAFSL records

Note 1: Venues were those provided by LCSD, the Hong Kong Academy for Performing Arts, the Hong Kong Arts Centre and the Fringe Club.

Note 2: Each member of YFS was entitled to a total of two tickets for HKAF performances/rehearsals/Young Friends Specials (see para. 1.5(c)).

Note 3: The 730 blocked seats were blocked seats reserved in two programmes co-presented by HKAFSL and the Hong Kong Chinese Orchestra/the Hong Kong Sinfonietta, comprising 507 technical blocked seats and 223 blocked seats for complimentary tickets.

Note 4: Because 4,506 blocked seats were subsequently released, the actual number of tickets available for sale increased to 111,482 (see Table 5 in para. 2.21) from the planned number of 106,976.

2.25 Audit examined the blocked seat arrangements for the 2018 programmes. Audit found that in 22 of the 42 programmes, some blocked seats had subsequently been released. Case 2 shows an example.

### Case 2

#### Release of blocked seats in a 2018 programme

1. A 2018 programme comprising 14 performances was staged at a venue of the Hong Kong Academy for Performing Arts. Each performance had 858 tickets available for sale, i.e. maximum venue capacity of 1,179 seats minus 321 blocked seats (Note 1).
2. In March 2018, the 14 performances were conducted and the attendance rate (i.e. the total number of paid audience ÷ the total number of tickets available for sale) of each of the performances was 100%. Audit noted that:
  - (a) for each of all the 14 performances, when the 858 tickets available for sale were sold out, some blocked seats were released for sale; and
  - (b) for the 14 performances, a total of 3,040 blocked seats were released for sale (and all were sold). For each performance, the number of blocked seats released ranged from 151 to 271 (Note 2).

*Source: HKAFSL records*

*Note 1: The 321 blocked seats comprised 286 temporarily blocked seats, 27 technical blocked seats, 4 HKAFSL duty staff seats and 4 wheelchair seats.*

*Note 2: In calculating the attendance rate mentioned in paragraph 2, the released blocked seats sold were included in the number of paid audience and the number of tickets available for sale.*

2.26 The blocked seats of HKAF are a cause for concern as:

- (a) there were many blocked seats (i.e. 21,746 (16.9%) of the 128,722 seats in the 2018 programmes — see Table 6 in para. 2.24); and
- (b) for some blocked seats, the intended purpose was not documented (i.e. the 13,744 temporarily blocked seats — see Table 6). The purpose of blocking the seats was therefore unclear.

2.27 The FSAs did not specify any requirements about the use of blocked seats by HKAFSL. HKAFSL also has no written guidelines on blocked seats (e.g. the number of seats to be blocked, their designated purposes and when they should be released). It was therefore uncertain whether all blocked seats that could be released by HKAFSL had been released, or whether some seats had been blocked unnecessarily. For example, in Case 2 of paragraph 2.25, while 3,040 blocked seats had been released and all were sold, it was uncertain whether measures had been taken to ensure that more of the remaining blocked seats of 1,454 (321 blocked seats × 14 performances – 3,040 seats released) could also have been released.

2.28 In Audit's view, due to blocked seats, some people who wish to attend performances cannot get tickets for the performances. Furthermore, blocked seats represent loss of potential income as the seat tickets are not available for sale. Blocked seats should therefore be kept to a minimum and promptly released as far as possible.

2.29 Audit considers that HKAFSL needs to draw up written guidelines on the use of blocked seats to ensure that the number of blocked seats is kept to a minimum and blocked seats are released as soon as possible and as far as possible. To enhance transparency and accountability, HKAFSL also needs to report to LCSD periodically information on blocked seats (e.g. the number of seats blocked in each HKAF and the number of blocked seats subsequently released).

### ***Need to report the number of tickets collected under YFS***

2.30 YFS is an integrated arts education and audience development programme. In 2017-18, YFS recruited some 6,300 members from secondary schools and tertiary institutions. HKAFSL reserved for the YFS members a number of seats in

performances, rehearsals and arts programmes (see para. 1.5(c)) (including the 4,146 seats in the 2018 programmes — see Table 6 in para. 2.24). Each YFS member who had paid the annual membership fee was entitled to a total of two tickets. YFS members had to apply for the tickets and collect the tickets at performance venues. In May 2018, HKAFSL informed LCSD that, under YFS, about 11,500 people attended performances/rehearsals/arts programmes in 2018. Upon enquiry, HKAFSL informed Audit in January and March 2019 that it only maintained records of number of seats reserved for YFS members and tickets issued for YFS members' collection (i.e. tickets applied for by YFS members under their entitlement). Information on tickets actually collected by YFS members was not kept. The number of tickets issued for YFS members' collection was taken as the number of people attending. To enhance transparency and accountability, HKAFSL needs to report to LCSD the number of tickets collected by YFS members.

## Audit recommendations

**2.31      Audit has *recommended* that the Executive Director, Hong Kong Arts Festival Society Limited should:**

- (a)      clarify with LCSD the definition of paid audience and attendance rate and report accordingly to LCSD;**
- (b)      draw up written guidelines on the use of blocked seats to ensure that the number of blocked seats is kept to a minimum and blocked seats are released as soon as possible and as far as possible;**
- (c)      report to LCSD periodically information on blocked seats, including the number of seats blocked and the number of blocked seats subsequently released; and**
- (d)      report to LCSD the number of tickets collected by YFS members.**

**2.32      Audit has *recommended* that the Director of Leisure and Cultural Services should specify in FSAs whether paid audience of programmes other than HKAF arts programmes should be included in the “number of paid audience”.**

## **Response from Hong Kong Arts Festival Society Limited**

2.33 The Executive Director, Hong Kong Arts Festival Society Limited agrees with the audit recommendations in paragraph 2.31. She has said that:

- (a) specific seats are blocked for various reasons, namely, allocation to YFS members to fulfil their entitlement; provision for staff on duty at each performance; accommodating sound panels, projectors, cameras and other technical requirements; consideration of sightlines and audio coverage as required; and special characteristics of the venue in relation to the type of performance;
- (b) the above considerations are discussed and agreed in inter-departmental management consultations, then based on shared understanding of the needs and the reasons, the blocked seats are marked and signed off by respective staff in the event set-up form;
- (c) subject to the agreement of the artists, where there is strong unfulfilled audience demand, and when the audience accept a compromise in sightlines or other conditions, additional blocked seats may be released; and
- (d) regarding tickets collected under YFS (see para. 2.30), the number of tickets issued for YFS members' collection was taken as the number of people attending because tickets could not be re-issued even if the ticket was not collected.

## **Response from the Government**

2.34 The Director of Leisure and Cultural Services agrees with the audit recommendation in paragraph 2.32. She has said that LCSD will work with HKAFSL on the reporting requirements on attendance and specify the following separate performance indicators in FSAs:

- (a) the number of paid audience for HKAF programmes excluding complimentary tickets and the attendance rate; and
- (b) the number of paid audience for "Festival PLUS".

## **PART 3: FUNDING OF THE HONG KONG ARTS FESTIVAL SOCIETY LIMITED**

3.1 This PART examines the funding of HKAFSL, focusing on:

- (a) income of HKAFSL (paras. 3.2 to 3.12); and
- (b) conditions of subvention (paras. 3.13 to 3.20).

### **Income of the Hong Kong Arts Festival Society Limited**

3.2 The three key sources of income of HKAFSL are sponsorship/donations, government subventions and income from ticket sales. In 2017-18, the proportion of income from the three key sources were 36%, 31% and 30% respectively (see Figure 1 in para. 1.7). The government subventions are provided to HKAFSL through LCSD:

- (a) ***Baseline subvention and time-limited subvention*** (see para. 1.8(a) and (b)). Every year, HKAFSL submits a funding application to LCSD. Considering the achievements of the last HKAF and proposals for the next HKAF, LCSD determines the amount of baseline subvention and, where necessary, the amount of time-limited subvention to be provided to HKAFSL for running the next HKAF;
- (b) ***Matching grants*** (see para. 1.9(a)). Since the launch of the Art Development Matching Grants Scheme in 2016 (see Note 5 to para. 1.2(b)(ii)), HKAFSL has been provided with matching grants under the Scheme. Every year, HKAFSL submits an application to LCSD for matching grants. Basing on factors such as proposed grants usage, the pledged amount of eligible cash sponsorship/donations to be received in the financial year and HKAFSL's last audited accounts, LCSD assesses the amount of sponsorship/donations eligible for matching (i.e. the grant amount) and the maximum amount of matching grants to be provided (subject to HAB's endorsement); and



- (c) **Project-based subvention** (see para. 1.9(b)). The subvention is provided to HKAFSL where necessary. HKAFSL may submit proposals for holding special programmes. In 2016-17, to celebrate the 20<sup>th</sup> anniversary of the establishment of the Hong Kong Special Administrative Region, HKAFSL held three special programmes with a one-off funding of \$11.1 million provided by HAB through LCSD.

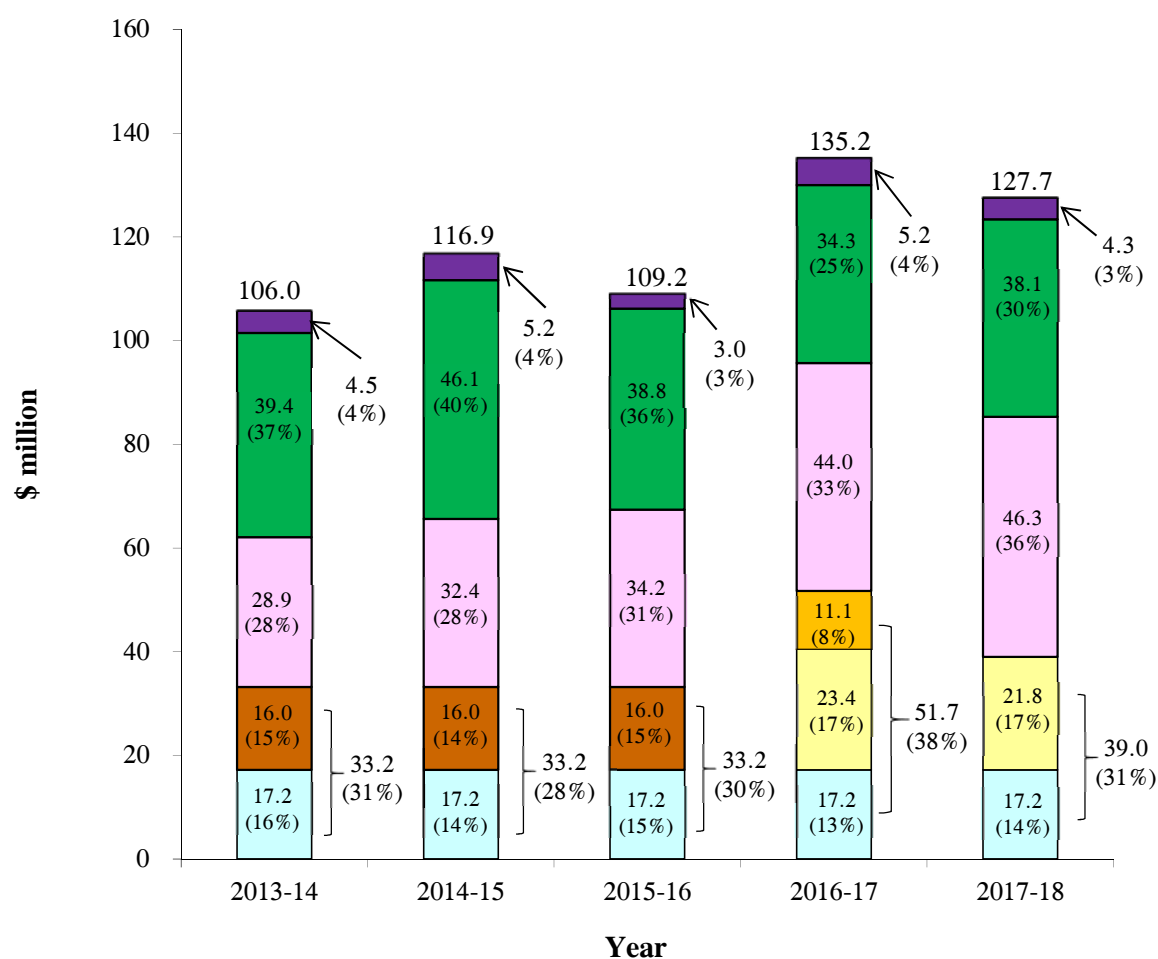
### *Need to monitor the use of subventions by HKAFSL*

3.3 Audit analysed the income (see Figure 3) and expenditure (see Figure 4) of HKAFSL for the years 2013-14 to 2017-18, and found that over the period:

- (a) **Government subventions.** On the whole, government subventions accounted for the same proportion of income (i.e. remained at 31% in 2013-14 and 2017-18). For individual subventions, the amount of baseline subvention remained unchanged over the period, while time-limited/one-off subvention had ceased since 2016-17 and matching grants had since been provided;
- (b) **Sponsorship/donations.** Sponsorship/donations accounted for an increasing proportion of income (i.e. increased from 28% in 2013-14 to 36% in 2017-18); and
- (c) **Income from ticket sales.** Income from ticket sales accounted for a decreasing proportion of income (i.e. decreased from 37% in 2013-14 to 30% in 2017-18).

Figure 3

## Income of HKAFSL (2013-14 to 2017-18)

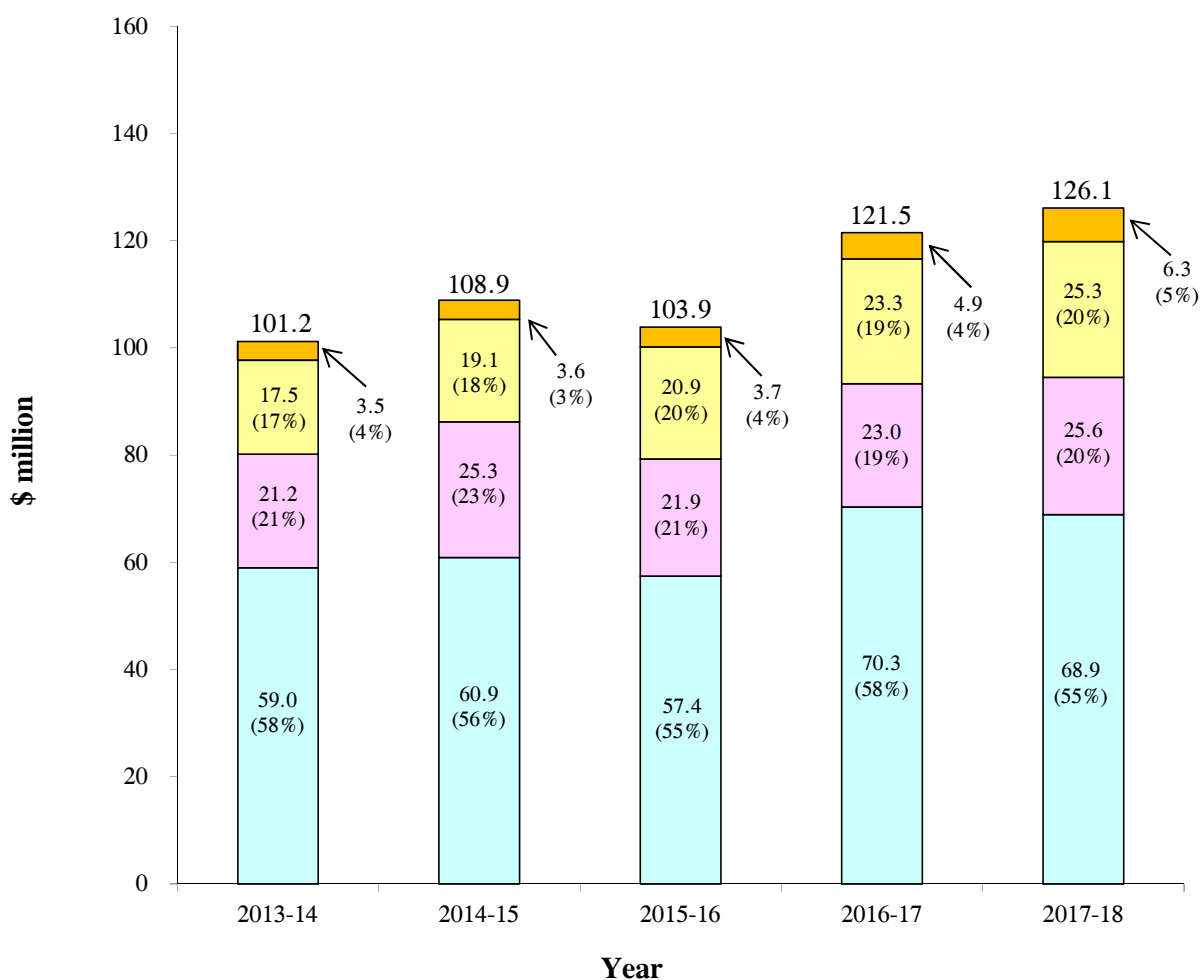


- Legend:
- Government subvention — baseline subvention
  - Government subvention — time-limited/one-off subvention
  - Government subvention — matching grants
  - Government subvention — project-based subvention
  - Sponsorship/donations
  - Income from ticket sales
  - Other income (including advertising income from publications and interest income)

Source: Audit analysis of HKAFSL records

Figure 4

**Expenditure of HKAFSL  
(2013-14 to 2017-18)**



Legend: ■ Programmes  
■ Marketing and development  
■ Personal emoluments  
■ Administration overhead

Source: Audit analysis of HKAFSL records

3.4 According to HKAFSL, it encountered the following difficulties relating to the operation of HKAFSL:

- (a) over the years, HKAFSL had been successful in raising large amounts of money (e.g. \$46.3 million in 2017-18 — see Figure 3 in para. 3.3) from sponsors and donors. However, heavy reliance on sponsorship/donations may put sustainability of HKAFSL at risk as this income stream is dependent on many factors outside HKAFSL's control;
- (b) matching grants are provided to HKAFSL, on a dollar-for-dollar matching basis, for eligible cash sponsorship/donations received by HKAFSL (see para. 1.9(a)). In 2017-18, the matching grants (\$21.8 million) accounted for a significant proportion (17%) of the total income (\$21.8 million ÷ \$127.7 million × 100%) of HKAFSL (see Figure 3 in para. 3.3). Inability of HKAFSL to secure sponsorship/donations would significantly reduce the income of HKAFSL;
- (c) every year, basing on certain assumptions (e.g. amount of sponsorship/donations received), HKAFSL prepared an annual budget for the Executive Committee's endorsement (Note 23). The estimated expenditure would be revised every three months, taking into account any changes in the assumptions, and would then be presented to the Executive Committee. For 2015-16 to 2017-18, there were deficits in the budgets when the budgets were first endorsed. In each of the three financial years, the financial situation improved over time, and it turned out that the revised budgets were balanced or showing surplus. Nevertheless, inadequate budgets in the first place might result in difficulty in engaging desired local and international artists (Note 24);
- (d) with encouragement for more efforts at fundraising in the whole sector, HKAFSL must face increasing competition from organisations which are

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**Note 23:** *According to HKAFSL records, the Executive Director presented the budget to the Finance Committee for review, and then to the Executive Committee for endorsement.*

**Note 24:** *For example, according to the minutes of a meeting of the Programme Committee to consider engagement of artists, "when HKAFSL had a clearer idea of the budget....., HKAFSL could make up the artist engagement decision by that time".*

funded to a much higher level. To such organisations, the funds raised from sponsors are merely incremental income, compared to the situation for HKAFSL where the income is essential for operational needs; and

- (e) HKAFSL's fundraising results are already in excess of both ceiling and cap of the matching grants. In HKAFSL's view, a revision would be congruent with the intention to encourage further efforts. HKAFSL is willing to work with all diligence and dedication, and seeks only a more level playing field in the local context.

3.5 In March 2019, HAB (the policy bureau of LCSD) informed Audit that:

- (a) while the Government provides funding to the arts and culture sector to promote and develop performing arts in Hong Kong, it is not the Government's policy that public funding should be the sole or principal source of income;
- (b) it is the policy of HAB to encourage all arts groups/organisations to solicit more private sponsorship/donations and build up their audience base in order to diversify their income source and to help ensure that their programmes include elements that appeal to the community. To inculcate a donation culture for arts and culture, it was announced in the 2015-16 Budget Speech that a matching grant scheme of \$300 million would be set up to help arts groups/organisations widen the sources of funding. Against this background, the Government launched the Art Development Matching Grants Scheme, of which HKAFSL is one of the beneficiaries. Noting the positive response, a further injection of \$500 million to the Scheme was announced in the 2018-19 Budget Speech. It is hoped that HKAFSL could gather more support from the community and build up supporters through its fundraising efforts. Internationally, many arts festivals are relying on private sponsorship/donations and depending less on government grants; and
- (c) the following funding has been/will be provided to HKAFSL:
  - (i) HKAFSL receives annual recurrent subvention from LCSD;

## **Funding of the Hong Kong Arts Festival Society Limited**

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- (ii) from 2019-20, subject to the passage of the Appropriation Bill 2019 by the Legislative Council, LCSD will increase the recurrent subvention to HKAFSL by 10% to \$18.898 million each year;
- (iii) for the five years from 2018-19, LCSD will provide an additional one-off funding of \$8 million per year (i.e. the time-limited subvention — see para. 3.2(a)) to HKAFSL with the specific policy intent for HKAFSL to groom local artists and to stage performance in the New Territories regions. While HKAF is renowned for presenting performances from overseas, given its large audience base, the HKAF is also a good opportunity to present selected local programmes and also for local artists to work together with foreign artists. LCSD will review the effectiveness of the five-year funding in meeting the specific objectives, and consider in due course if the funding should be extended or regularised; and
- (iv) as said in (b) above, it is the Government's policy to encourage private sponsorship in arts and culture activities. The Art Development Matching Grants Scheme provides matching fund to arts groups, including HKAFSL. Taking into account the operation and funding needs of HKAFSL, a ceiling of \$30 million for the matching fund has been provided for HKAFSL. For the third round of the Scheme launched in 2018, HKAFSL would, on a dollar-for-dollar matching ratio, receive matching fund of about \$27 million from the Government.

3.6 According to the FSAs (see para. 1.11), HKAFSL shall organise an arts festival with targets as follows:

- (a) to present an international arts festival of highest artistic standard;
- (b) to present a balanced festival with programmes which introduce the latest artistic trends and are innovative and catalytic in their influence on the local art scene;
- (c) to present programmes from around the world which sustain HKAF's reputation as a major international arts festival; and

- (d) to present the best of local talents with preference given to new works, productions specially mounted for the festival and programmes highlighting the cultural setting of Hong Kong.

LCSD assesses annually the performance of HKAFSL against performance indicators in FSAs (see para. 3.14(c)). Audit noted the efforts of HAB and LCSD (see para. 3.5(c)) in engaging HKAFSL to organise HKAFs in Hong Kong. Audit considers that LCSD needs to ensure that the review of the effectiveness of the time-limited subvention (see para. 3.5(c)(iii)) to HKAFSL is carried out in a timely manner. The LCSD also needs to continue to monitor the use of government subventions by HKAFSL to ensure that HKAFs are delivered in accordance with FSAs.

### *Some relevant factors not taken into account when setting ticket prices*

3.7 As shown in Figure 3 in paragraph 3.3, the proportion of income from ticket sales decreased from 37% in 2013-14 to 30% in 2017-18. According to the HKAFSL's practice, in setting ticket prices for HKAFs, it takes into account the following factors:

- (a) buying power/habits of different types of audience;
- (b) audience satisfaction and venue locations;
- (c) popularity of programmes, i.e. setting higher prices for more popular programmes (e.g. those featuring eminent artists);
- (d) popularity of venues, i.e. setting lower prices for programmes presented in less popular venues (e.g. venues in the New Territories);
- (e) audience familiarity with the artist, i.e. setting lower prices for less known artists;
- (f) accessibility to a wider sector of the community, i.e. keeping tickets as affordable as possible and including an inexpensive entry level lowest ticket price; and

- (g) market norms, i.e. what other local presenters are charging for programmes of a similar genre and scale.

3.8 Against the above practice, Audit noted that two relevant factors had not been taken into account in setting ticket prices for HKAFs:

- (a) ***Need to recover a target proportion of costs.*** HKAFSL has not set any target proportion of costs to be recovered through ticket sales. Cost was therefore not a factor for consideration in determining the ticket prices by HKAFSL. Table 7 shows that HKAFSL's expenditure recovered through ticketing income dropped from 39% in 2013-14 to 30% in 2017-18. Setting ticket prices without duly taking costs into account would further increase HKAFSL's reliance on sponsorship/donations; and

**Table 7**

**Ticketing income and total expenditure  
(2013-14 to 2017-18)**

Year	Ticketing income (\$ million) (a)	Total expenditure (\$ million) (b)	Percentage of ticketing income to total expenditure (c) = [(a) ÷ (b)] × 100%
2013-14	39.4	101.2	39%
2014-15	46.1	108.9	42%
2015-16	38.8	103.9	37%
2016-17	34.3	121.5	28%
2017-18	38.1	126.1	30%

*Source: Audit analysis of HKAFSL records*



- (b) *Needs of senior citizens.* While HKAFSL provides discounted tickets (50% discount on original ticket prices) to full-time students and people with disabilities, no similar concessions are available to senior citizens (despite public requests for discounted tickets for senior citizens) (Note 25). On the other hand, concessionary tickets are provided to senior citizens aged 60 or above in most cultural programmes provided by LCSD. In Audit's view, providing concessionary tickets to senior citizens would help promote appreciation of arts among the growing elderly population (Note 26).

Audit considers that both the above two factors are key considerations which should be taken into account when setting ticket prices. There is a need for HKAFSL to strike a balance between the two factors in setting ticket prices.

### Audit recommendations

3.9 **Audit has recommended that the Director of Leisure and Cultural Services should:**

- (a) **ensure that the review of the effectiveness of the time-limited subvention (see para. 3.5(c)(iii)) to HKAFSL is carried out in a timely manner; and**
- (b) **continue to monitor the use of government subventions by HKAFSL to ensure that HKAFs are delivered in accordance with FSAs.**

3.10 **Audit has recommended that the Executive Director, Hong Kong Arts Festival Society Limited should, taking into account all relevant factors, review the practices on setting ticket prices for HKAF programmes.**

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**Note 25:** *From time to time, HKAFSL, HAB and LCSD received requests from the public for discounted tickets for senior citizens.*

**Note 26:** *According to the Census and Statistics Department, the percentage of population of people aged 60 or above in Hong Kong would increase from 25% in 2019 to 33% in 2029.*

## **Response from the Government**

3.11 The Director of Leisure and Cultural Services agrees with the audit recommendations in paragraph 3.9. She has said that:

- (a) LCSD will review the effectiveness of the time-limited subvention as appropriate; and
- (b) LCSD will continue to monitor the use of government subventions by HKAFSL to ensure that HKAFs are delivered in accordance with FSAs through scrutinising the reports and accounts submitted by HKAFSL, attending its Executive Committee meetings, exchanging views through meetings and correspondences, etc.

## **Response from Hong Kong Arts Festival Society Limited**

3.12 The Executive Director, Hong Kong Arts Festival Society Limited agrees with the audit recommendation in paragraph 3.10. She has said that:

- (a) HKAFSL takes due note of Audit's recommendation on ticket pricing, and will balance institutional sustainability with making quality performances as affordable to as many people as possible; and
- (b) HKAFSL appreciates Audit's comments on concessionary tickets for senior citizens, and wishes that its financial situation and funding mode could make this possible. HKAFSL has already made an application to the Government for specific support with regard to the senior citizens' discount and looks forward to a positive response.

## **Conditions of subvention**

### ***Need for HKAFSL to better observe conditions of subvention***

3.13 HKAFSL is required to observe the conditions of subvention stipulated in FSAs (see para. 1.11). Audit found that there is scope for improvement in this regard:

- (a) *Need to maintain records of consultation with the Government on selecting the Chairman of the Executive Committee.* According to the conditions of subvention stipulated in the FSAs of LCSD's baseline subvention and time-limited subvention, HKAFSL needs to consult the Government in advance in each and every selection of the Executive Committee's Chairman. From 2010 to 2018, there were changes of Chairman of the Executive Committee in 2012 and 2015. Audit noted that on both occasions, the Chairman was nominated and appointed by members in the meetings of the Executive Committee (with LCSD's representative attending the meeting as an observer — see para. 1.12(c)) and there were no records of advance consultation with the Government. Upon enquiry in February 2019, HKAFSL informed Audit that it had verbally consulted the Government representatives in advance on both occasions prior to the Executive Committee meetings. However, no written records were maintained. Audit considers that HKAFSL needs to maintain records of the consultation regarding the selection of the Chairman of the Executive Committee, pursuant to the requirement stipulated in the conditions of subvention; and

- (b) ***Need to submit reports in a timely manner.*** According to FSAs, HKAFSL was required to submit reports/accounts (for simplicity, hereinafter collectively referred to as reports) to LCSD by specified dates each year. Before 2016-17, 4 reports were required. The number has since been increased to 7 (Note 27). Audit examined, for the years 2013-14 to 2017-18, the submission of reports by HKAFSL and found that there were cases of delay in report submission. Table 8 shows that during the period:
- (i) ***Reports submitted late.*** The number of reports submitted after the deadlines increased from 1 in 2013-14 to 3 in 2017-18; and
- (ii) ***Reporting arrangement being worked on.*** As at 28 February 2019, for 3 reports related to matching grants, LCSD and HKAFSL were working on the reporting arrangements (e.g. what was required in the reports). The 3 reports were yet to be submitted.

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**Note 27:** *According to FSAs:*

- (a) *for baseline and time-limited subvention, HKAFSL is required to submit 4 reports: (i) a report on the implementation of activities; (ii) a self-evaluation and assessment report; (iii) unaudited accounts; and (iv) audited accounts; and*
- (b) *for matching grants, HKAFSL is required to submit 2 reports: (i) a progress report; and (ii) a report on factual findings (the report provides information on the actual amount of sponsorship/donations eligible for matching grants as well as the expenses incurred in obtaining the sponsorship/donations — see also Note 10 to para. 1.9(a)). Under FSAs, HKAFSL is also required to obtain a confirmation from its auditor that the terms and conditions for matching have been complied with for the sponsorship/donations for the financial year, and that the Grant has been used in accordance with the Application Guide and Supplemental Agreement of the matching grants. For this purpose, HKAFSL needs to submit a set of audited accounts for matching grants.*

*Accordingly, the number of required reports totals 7, i.e. 4 reports (see (a) above) plus 2 reports (see (b) above) plus the audited accounts for matching grants.*

## Funding of the Hong Kong Arts Festival Society Limited

**Table 8**

### Submission of reports under FSAs (2013-14 to 2017-18)

	2013-14	2014-15	2015-16	2016-17	2017-18	Overall
Number of reports required to be submitted	4	4	4	7 (Note 1)	7	26
<b>Reports submitted on time</b>						
Number of reports	1	1	1	0	2	5
<b>Reports submitted after the deadlines</b>						
Number of reports	1	1	3	5	3	13
Delay	104 days	57 days	69 to 368 days	3 to 112 days	5 to 23 days	3 to 368 days
<b>Reporting arrangements being worked on (as at 28 February 2019)</b>						
Number of reports	0	0	0	1 (Note 2)	2 (Note 3)	3
<b>Information unavailable</b>						
Number of reports	2	2	0	1	0	5 (Note 4)
Total number of reports	4	4	4	7	7	26

Source: HKAFSL and LCSD records

Note 1: With effect from 2016-17, under the matching grants, 3 additional reports were required to be submitted (i.e. increasing the total number of reports from 4 to 7).

Note 2: The report was the 2016-17 audited accounts for matching grants. According to HKAFSL, it had been working with LCSD on the reporting arrangements for the report. According to the FSA, the report should be submitted by 31 October 2017.

Note 3: The 2 reports were the 2017-18 audited accounts for matching grants and report on factual findings (see Note 27 to para. 3.13(b)). According to HKAFSL, it had been working with LCSD on the reporting arrangements for the reports. According to the FSA, the reports should be submitted by 30 November 2018.

Note 4: For 4 reports (i.e. the 2013-14 self-evaluation and assessment report, the 2014-15 report on the implementation of activities, and the 2013-14 and 2014-15 unaudited accounts) (see Note 27 to para. 3.13(b)), both LCSD and HKAFSL records did not show whether the reports had been submitted. For the remaining report (i.e. the 2016-17 report on the implementation of activities), while the report had been submitted to LCSD, there was no record of the submission date (see para. 3.14(b) for related audit findings, and paras. 3.17(c) and 3.18(b) for related audit recommendations).

***Need for LCSD to better oversee government subventions to HKAFSL***

3.14 LCSD is responsible for overseeing the government subventions provided to HKAFSL (see para. 1.12). Audit found that there is room for LCSD to enhance its oversight:

- (a) ***Need to better ensure timely submission of reports.*** In 2013-14 to 2017-18, 16 (61.5%) of 26 reports were not submitted on time (i.e. 13 reports submitted after the deadlines, and 3 reports with their reporting arrangements still being worked on (see Table 8 in para. 3.13)). Of the 16 reports:
  - (i) for the 3 reports with their reporting arrangements still being worked on, LCSD had taken action to hold over disbursement of grants until the reports were submitted for LCSD's examination (a total \$4.5 million of grants were suspended) (Note 28 ). According to LCSD, it worked closely with HKAFSL to explain the requested requirement for the matching grants through various meetings and e-mails; and
  - (ii) for the remaining 13 reports that were submitted after the deadlines, follow-up actions were less than adequate:
    - for 4 reports, LCSD had taken follow-up actions. However, 7 to 112 days had elapsed before LCSD's follow-up actions. Eventually, the reports were submitted 20 to 368 days after the deadlines; and
    - for 9 reports, LCSD records did not indicate that LCSD had taken any follow-up actions;
- (b) ***Need to maintain proper records of report submission.*** For LCSD, maintaining proper records are instrumental in monitoring HKAFSL's

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**Note 28:** *Matching grants were disbursed by instalments. The last instalment (involving 10% of grants) would only be disbursed upon LCSD's acceptance of the audited accounts and the report on factual findings.*

submission of reports. However, in 2013-14 to 2017-18, LCSD records were not properly kept in the following instances:

- (i) ***Reports not located or report submission date not recorded.*** For 4 reports, LCSD could not locate the reports for Audit's examination. Both LCSD and HKAFSL records did not show whether the reports had been submitted. For another report, while LCSD could locate it for Audit's examination, LCSD did not record the submission date; and
- (ii) ***Dates of signing accounts taken as dates of submission.*** For three years 2013-14 to 2015-16, LCSD did not record the dates of the HKAFSL's submission of audited accounts for baseline subvention and time-limited subvention. Upon enquiry in January 2019, LCSD informed Audit that the dates of signing the accounts by HKAFSL's auditor were taken as the submission dates. In Audit's view, this practice would render the record on submission dates inaccurate; and
- (c) ***Need to set more appropriate expected levels of performance.*** To measure the performance of HKAFSL, for each performance indicator in FSAs, an expected level of performance was set by LCSD in consultation with HKAFSL. In 2013-14 to 2017-18, the expected levels of performance were not met on 6 occasions (involving 6 indicators — see Table 9). LCSD records indicated that when HKAFSL did not attain an expected level in a year (e.g. 2015-16), the expected level was lowered in the ensuing year (e.g. 2016-17). The lowered expected level would not be raised again, or sometimes would even be further lowered (see Table 9), even though HKAFSL outperformed the expected levels in subsequent years. There was no documentation showing that LCSD had attempted, in consultation with HKAFSL, to reset more challenging, while achievable, expected levels of performance.

## Funding of the Hong Kong Arts Festival Society Limited

**Table 9**

### Attainment of performance indicators by HKAFSL (2013-14 to 2017-18)

Performance indicator	Attainment	2013-14	2014-15	2015-16	2016-17	2017-18
Number of charged local programmes	Expected level	8	10	15	6	6
	Actual	13	15	14	13	8
Number of charged local performances	Expected level	22	32	23	30	30
	Actual	34	33	24	36	31
Number of charged overseas programmes	Expected level	33	37	35	26	26
	Actual	35	30	35	36	32
Number of charged overseas performances	Expected level	81	98	85	66	66
	Actual	89	92	86	87	95
Number of charged collaborated programmes	Expected level	3	1	1	2	2
	Actual	5	3	1	2	2
Number of charged collaborated performances	Expected level	11	5	7	4	4
	Actual	10	8	7	4	4
Number of workshops, talks, masterclasses, meet-the-artist sessions, forums, showcases and open rehearsals	Expected level	100	160	150	130	180
	Actual	171	197	234	499	323
Number of educational programmes	Expected level	70	70	60	50	50
	Actual	91	63	70	74	91
Number of exhibitions	Expected level	1	1	1	1	1
	Actual	1	2	1	1	4
Number of visitors in exhibitions	Expected level	150,000	150,000	150,000	150,000	150,000
	Actual	150,000	170,000	150,000	150,000	153,000
Number of paid audience excluding complimentary tickets	Expected level	130,000	99,800	85,207	72,000	72,000
	Actual	108,099	106,343	98,411	98,309	105,034
Attendance rate	Expected level	80%	90%	85%	80%	80%
	Actual	94%	95%	93%	93%	92%
Number of audience/participants for free education and community activities	Expected level	27,000	33,000	36,000	31,000	30,000
	Actual	57,545	48,986	43,883	97,420	50,295

Legend:  Expected level of performance indicator not attained  
 Expected level of performance indicator not raised or further lowered

Source: HKAFSL and LCSD records



3.15 In February and March 2019, regarding the expected levels of performance, LCSD and HKAFSL informed Audit that:

***LCSD***

- (a) in analysing funding application from HKAFSL, LCSD reviewed and assessed the performance indicators of the preceding year on an overall basis (e.g. the total number of charged local, overseas and collaborated programmes and performances were assessed together);
- (b) for 2016-17, owing to the expiry of the time-limited/one-off subvention to HKAFSL, and uncertainty of the amount of matching grants to be received by HKAFSL at the beginning of the financial year, lower expected levels of performance were set as agreed with HKAFSL; and

***HKAFSL***

- (c) as agreed with LCSD, the expected levels of performance were adjusted:
  - (i) for 2014-15 because the purchasing power of the funding level established in 2010-11 (i.e. start of the 5-year period for the time-limited subvention) had been reduced given zero increase in funding during that period. Taken in total over the 5 years, HKAF already exceeded the agreed indicators as it produced much more in the first year;
  - (ii) for 2015-16 because of the expected reduction in subvention upon expiry of the time-limited subvention (Note 29);
  - (iii) for 2016-17 because of the uncertainties on the funding amount to be obtained through the Art Development Matching Grants Pilot Scheme (see Note 5 to para. 1.2(b)(ii)); and
  - (iv) for 2017-18 because the application for funding was made before the outcomes of the 45<sup>th</sup> HKAF in 2017 and the results of the

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**Note 29:** *According to HKAFSL, the provision of one-off bridging subvention was confirmed after the indicators were established.*

matching grants pilot scheme could be ascertained. The HKAFSL had made a prudent forecast.

3.16 Audit noted that there were various considerations taken into account in setting the expected performance levels specified in FSAs. However, in Audit's view, actual performance, albeit not the sole factor, should be an important factor that should be taken into account in setting challenging and achievable expected levels of performance. Only by doing so, the expected level of performance can serve its intended purpose of facilitating the monitoring of the actual level of performance. Audit considers that LCSD needs to take into account the actual performance results in setting the expected levels of performance for the indicators in FSAs.

### **Audit recommendations**

3.17 Audit has *recommended* that the Executive Director, Hong Kong Arts Festival Society Limited should:

- (a) **maintain records of the consultation with the Government regarding the selection of the Chairman of the Executive Committee;**
- (b) **step up efforts to ensure that reports are submitted to LCSD in a timely manner in accordance with FSAs; and**
- (c) **maintain proper records on reports submitted to LCSD.**

3.18 Audit has *recommended* that the Director of Leisure and Cultural Services should:

- (a) **take follow-up actions on late submission of reports (e.g. ascertain why the reports are not submitted on time and urge for their timely submission) by HKAFSL;**
- (b) **maintain proper records of reports submitted by HKAFSL, including the date of submission; and**

- (c) in consultation with HKAFSL, consider revising the expected levels of performance for indicators in FSAs, taking into account the actual performance results.

## **Response from Hong Kong Arts Festival Society Limited**

3.19 The Executive Director, Hong Kong Arts Festival Society Limited agrees with the audit recommendations in paragraph 3.17. She has said that:

- (a) before 2017-18, HKAFSL was required to submit unaudited accounts and audited accounts by 30 June and 30 September respectively. It was not possible to comply with the deadlines for unaudited accounts as HKAFSL's financial year ended on 30 June, and the audited accounts could not be submitted before the annual general meeting (AGM) (usually held in October). This schedule was in place until LCSD revised the submission dates for the unaudited accounts and audited accounts to 31 August and 30 November respectively in 2017-18, making compliance and timely delivery of reports feasible;
- (b) HKAFSL has been working diligently and continuously on the reporting arrangements for the 3 reports related to matching grants (see para. 3.13(b)(ii)) in consultation with both LCSD and its auditors; and
- (c) actual performance as measured in the performance indicators is not the sole factor. HKAFSL considers diversity and quality of performances to be of equal importance.

## **Response from the Government**

3.20 The Director of Leisure and Cultural Services agrees with the audit recommendations in paragraph 3.18. She has said that:

- (a) LCSD always urges HKAFSL for timely submission of reports. In particular for the reports on matching grants newly introduced in 2016, LCSD had been working closely with HKAFSL through meetings and e-mails to explain the requirements for compiling reports according to the terms and conditions of the agreement. LCSD will reinforce arrangements

in future by devising a checklist to step up the monitoring on the timely submission of reports and ensuring the documentation of action taken;

- (b) starting from 2017-18, the reports submitted by HKAFSL have been stamped with date chops. LCSD will further enhance the registry of reports submitted by HKAFSL; and
- (c) LCSD will work with HKAFSL to revise the performance indicators taking into account the actual performance results.

## **PART 4: GOVERNANCE AND ADMINISTRATIVE ISSUES**

4.1 This PART examines the governance and administrative issues of HKAFSL. Audit found room for improvement in the following areas:

- (a) governance issues (paras. 4.2 to 4.12); and
- (b) administrative issues (paras. 4.13 to 4.23).

### **Governance issues**

4.2 HKAFSL is a company limited by guarantee (see para. 1.4). The company's Memorandum and Articles of Association specifies, among other matters, practices on corporate governance, such as:

- (a) ***Executive Committee membership.*** The Executive Committee is the overall governing body of HKAFSL. It shall:
  - (i) have not less than 10 but not more than 20 members; and
  - (ii) have members elected at AGMs of HKAFSL with a term of three years (Note 30);
- (b) ***Conduct of meetings.*** At least 21 days' notice is required for convening AGMs. The quorum for Executive Committee meetings is 5 members; and
- (c) ***Committees.*** The Executive Committee may establish advisory and consultative committees, councils and groups as it may determine to be in the best interest of HKAFSL, and may prescribe rules and regulations governing such committees/councils/groups' composition, appointment process, duration, procedures and other matters.

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**Note 30:** *Where vacancies for committee members arise, existing committee members may appoint candidates to fill the vacancies.*

4.3 As at 31 December 2018:

- (a) HKAFSL had 10 Executive Committee members (Note 31); and
- (b) the Development Committee, Finance Committee and Programme Committee (see para. 1.13) had 7, 3 and 8 members respectively.

### *Need to improve practices on declaration of conflicts of interest*

4.4 In May 2010, the Efficiency Office (known as Efficiency Unit prior to April 2018) of the Government issued the “Guide to Corporate Governance for Subvented Organisations”. The Guide sets out best practices on corporate governance, including those on management of conflicts of interest. In October 2010, at HKAFSL’s AGM, the LCSD representative reminded HKAFSL members of the need to observe the required practices on managing conflicts of interest. In February 2011, at an Executive Committee meeting, it was decided that all members of the Executive Committee and its supporting committees should declare any conflicts of interest. Accordingly, the following requirements on declaration of conflicts of interest were set:

- (a) every member should sign an undertaking that, when he/she has a potential conflict of interest in a matter placed before the committees, he/she should make full disclosure of his/her interests; and
- (b) the undertaking should be signed upon joining the committees and, subsequently, after each AGM.

4.5 However, HKAFSL records indicated that in each year from 2014-15 to 2018-19, some members (35% to 54%) of the Executive Committee and its supporting committees did not sign the undertakings on declaration of conflicts of interest (see Table 10).

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**Note 31:** *For meetings of the Executive Committee held in 2017-18, the overall attendance rate of members was 72%.*

**Table 10**

**Members of Executive Committee and supporting committees with and without signing undertakings on declaration of conflicts of interest (2014-15 to 2018-19)**

	2014-15	2015-16	2016-17	2017-18	2018-19
Member	Number and percentage of members				
Signed undertakings	15 (56%)	13 (46%)	20 (65%)	17 (59%)	18 (64%)
Not signed undertakings	12 (44%)	15 (54%)	11 (35%)	12 (41%)	10 (36%)
Total	27 (100%)	28 (100%)	31 (100%)	29 (100%)	28 (100%)

*Source: HKAFSL records*

*Remarks: Each year in the Table refers to the intervening period between two AGMs.*

4.6 Audit further noted that according to the Guide (see para. 4.4), the good practice is for organisations to adopt a two-tier reporting system. Under the system, in addition to reporting conflicts of interest at meetings as and when they arise, organisations' committee members should disclose their general interest on appointment to the committee. According to the Guide, the declaration should be made on a registration form, which should be available for inspection by the public. In this regard, HKAFSL has not adopted such a two-tier reporting system for the declaration of conflicts of interest.

***Need to obtain prior endorsement for salary adjustment***

4.7 HKAFSL staff receive a monthly salary and may receive a year-end bonus:

- (a) ***Monthly salary.*** The monthly salary of individual staff is paid according to a salary scale. The scale is adjusted annually by a percentage having regard to relevant factors, such as market conditions and cost of living (according to HKAFSL, in some cases, salaries are capped and not subject to the annual adjustment); and

## Governance and administrative issues

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- (b) *Year-end bonus.* The bonus may be paid to recognise individual staff's performance.

Each year, the Executive Director makes a proposal on a cost of living adjustment for monthly salary, and on the year-end bonus where appropriate. The proposal is submitted to the Finance Committee for discussion, and then to the Executive Committee for further discussion and endorsement.

4.8 In 2015, there was a review of salary scale. Details are as follows:

- (a) in March 2015, at a Finance Committee meeting, members considered HKAFSL staff remuneration and agreed that it was not as competitive as that of other arts organisations;
- (b) in April 2015, at an Executive Committee meeting, it was agreed that a new salary scale would be established and the appropriate provision would be made in the budget, with details of the new salary scale to be determined;
- (c) in June 2015, in discussing the 2015-16 budget, the Executive Director informed the Finance Committee that a new salary scale was being drawn up referencing the salary scale of LCSD, and proposed that the salaries of all HKAFSL staff would be revised accordingly. Members had no objection;
- (d) in the same month, the Executive Director presented a proposed salary scale to the Chairman of the Executive Committee for consideration and approval. The Chairman gave approval for the salary scale; and
- (e) in July 2015, the Executive Director reported to the Executive Committee that salary adjustments for HKAFSL staff had been made in accordance with a new salary scale, as agreed in the Executive Committee meeting of April 2015 (see (b) above).

4.9 In February and March 2019, HKAFSL informed Audit that office bearers of the Executive Committee, including the Chairman, worked with the Executive Director on the new salary scale as a remuneration task force. The matter was then duly reported back to the Executive Committee (see para. 4.8(e)). Therefore, all



prior discussions and approvals were in place, including the discussion and endorsement of the Finance Committee and the approval of the Executive Committee.

4.10 However, Audit noted that the details of the new salary scale had not been discussed at Executive Committee meetings. Moreover, endorsement of the specific details of the new salary scale had not been obtained from the Executive Committee before the salary scale was implemented. In Audit's view, the above arrangements (see para. 4.8) were not sufficiently comprehensive as the new salary scale had not been presented in full to the entire Executive Committee for discussion and endorsement. To ensure proper accountability, HKAFSL needs to seek the Executive Committee's endorsement of the details of salary revisions in future.

### **Audit recommendations**

4.11 Audit has *recommended* that the Executive Director, Hong Kong Arts Festival Society Limited should:

- (a) **remind members of the Executive Committee and the supporting committees to sign and submit undertakings on declaration of conflicts of interest;**
- (b) **consider adopting a two-tier reporting system for declaration of conflicts of interest; and**
- (c) **seek the Executive Committee's endorsement of the details of salary revisions in future.**

### **Response from Hong Kong Arts Festival Society Limited**

4.12 The Executive Director, Hong Kong Arts Festival Society Limited agrees with the audit recommendations. She has said that:

- (a) regarding the undertakings on declaration of conflicts of interest, the signing of undertakings was progressively done, with priority given to the Executive Committee and the Finance Committee. The other committees will follow;

## **Governance and administrative issues**

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- (b) all members of the Executive Committee had submitted the undertakings on declaration of conflicts of interest for 2017-18 and 2018-19; and
- (c) all members of the Finance Committee had submitted the undertakings on declaration of conflicts of interest for 2018-19.

## **Administrative issues**

4.13 As at 31 December 2018, HKAFSL had 58 staff, which comprised 18 (31%) permanent staff and 40 (69%) contract staff.

### ***Need to take measures to address high staff turnover rate***

4.14 Audit analysed changes in the number of HKAFSL staff from 2016 to 2018 (see Table 11) and noted that, in each year:

- (a) 22% to 34% of staff left HKAFSL; and
- (b) 29% to 51% of staff had newly joined HKAFSL for less than one year.

Table 11

**Changes in the number of HKAFSL staff  
(2016 to 2018)**

	2016	2017	2018
<b>Position as at 1 January</b>			
Permanent staff	20	19 (Note)	18 (Note)
Contract staff	24	30	31
Sub-total (a)	44	49	49
<b>Left HKAFSL</b>			
Permanent staff (b)	2	1	2
Contract staff (resigned) (c)	13	10	11
Contract staff (contract ended) (d)	5	3	4
Sub-total (e)	20	14	17
<b>Joined HKAFSL</b>			
Permanent staff	1	1	2
Contract staff	24	13	24
Sub-total (f)	25	14	26
<b>Position as at 31 December</b>			
Permanent staff	19	18 (Note)	18
Contract staff	30	31	40
Total (g) = (a) – (e) + (f)	49	49	58
<b>Staff turnover rate</b> (h) = [(b) + (c)] ÷ (a) × 100%	<b>34%</b>	<b>22%</b>	<b>27%</b>
<b>Proportion of new staff as at 31 December</b> (i) = (f) ÷ (g) × 100%	<b>51%</b>	<b>29%</b>	<b>45%</b>

Source: Audit analysis of HKAFSL records

Note: In 2017, a permanent staff requested changing to work part-time. In response, HKAFSL changed the post from permanent to contract term with effect from 2018.

## Governance and administrative issues

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4.15 HKAFSL has an established process of conducting exit interviews for staff. HKAFSL records indicated that, of the 51 (20 + 14 + 17) staff who left in 2016 to 2018 (see Table 11 in para. 4.14), 42 provided reasons for leaving. Table 12 shows the reasons provided by the 42 staff.

**Table 12**

**Reasons for leaving provided by 42 staff  
(2016 to 2018)**

Reason	Total (Note)
Personal reason (including further studies)	12
Health problem	11
New job found	11
Work pressure	10
Salary	7
Working condition	5
Supervisor	3
Transportation	2
Other reasons	13

*Source: Audit analysis of HKAFSL records*

*Note: Some staff gave more than one reason for leaving.*

4.16 High staff turnover rate is not conducive to operational efficiency and fulfilling the mission of HKAFSL (see para. 1.4). Although HKAFSL has recruited new staff, newcomers are generally less familiar with HKAFSL operation. Audit noted that in 2015, HKAFSL had taken measures to retain staff (see para. 4.8). Nevertheless, it needs to step up efforts to address the high turnover rate of staff, taking into account the staff's reasons for leaving.

***Need to promptly report details about non-resident entertainers to the Inland Revenue Department***

4.17 Every year, HKAFSL engages local and overseas artists to perform in HKAF. According to the Inland Revenue Ordinance and the Inland Revenue Department (IRD)’s information pamphlet, for a non-resident entertainer (i.e. overseas artist):

- (a) the sums received from performances in Hong Kong are chargeable to Hong Kong Profits Tax;
- (b) the person who paid the sums is the Hong Kong payer; and
- (c) the Hong Kong payer is responsible for:
  - (i) completing the IRD’s form “IR623 — Notification of Arrival in Hong Kong of Non-resident Entertainer(s)/Sportsmen” (the IR623 form) to provide details about the non-resident entertainer and report the gross amount payable to him/her. The Hong Kong payer should complete the IR623 form immediately when the non-resident entertainer arrives in Hong Kong; and
  - (ii) settling the tax due.

4.18 HKAFSL is a Hong Kong payer. Audit examined HKAFSL records of submission of the IR623 forms for the 46<sup>th</sup> HKAF in 2018. Audit noted that as at 31 January 2019, of the 42 performance contracts of overseas artists engaged by HKAFSL:

- (a) for 13 (31 %) performance contracts, the IR623 forms had been submitted to IRD (Note 32); and

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**Note 32:** *HKAFSL records indicated that the estimated total amount of tax payable for the 13 performance contracts of overseas artists was some \$500,000. In 2018, some \$300,000 were due for payment and settled by HKAFSL. According to HKAFSL, payment information for the balance amount was pending from IRD.*

## Governance and administrative issues

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- (b) for the remaining 29 (69%) performance contracts, the IR623 forms had not been submitted to IRD. As at the end of January 2019, around 10 to 11 months had elapsed since the IR623 forms were due for submission (see para. 4.17(c)(i)).

4.19 Upon enquiry, HKAFSL informed Audit in February 2019 that:

- (a) the delay in submission of the IR623 forms for the 29 performance contracts of overseas artists was mainly due to HKAFSL's staff turnover during the year; and
- (b) it would shortly submit the IR623 forms to IRD.

4.20 Audit considered that for the 29 performance contracts for the 46<sup>th</sup> HKAF in 2018, the submission of outstanding IR623 forms to IRD was a matter of priority. Furthermore, HKAFSL also needed to ascertain whether there were any non-submission of IR623 forms for overseas artists engaged in previous years and take remedial action where necessary.

4.21 In March 2019, HKAFSL informed Audit that:

- (a) the outstanding IR623 forms for the 29 performance contracts (see para. 4.18(b)) were submitted to IRD in February and March 2019; and
- (b) HKAFSL had completed a check on the submission of IR623 forms for previous years. The check showed that all forms had been duly submitted to IRD.

Audit considers that HKAFSL needs to ensure that all IR623 forms are promptly submitted in future.

## Audit recommendations

4.22 **Audit has *recommended* that the Executive Director, Hong Kong Arts Festival Society Limited should:**

- (a) **take effective measures to address the high staff turnover rate, taking into account staff's reasons for leaving HKAFSL; and**
- (b) **ensure that IR623 forms are promptly submitted when non-resident entertainers arrive in Hong Kong.**

## **Response from Hong Kong Arts Festival Society Limited**

4.23 The Executive Director, Hong Kong Arts Festival Society Limited agrees with the audit recommendations. She has said that there is high mobility in the work force in Hong Kong. There has been major recruitment from large arts organisations in the last two years, and this is likely to continue as new venues and new initiatives come on stream. In January 2019, the median length of service for HKAFSL staff was 2.2 years.

**Appendix A**  
(paras. 1.5(a)(iii)  
and 2.2 refer)

### Hong Kong Arts Festival arts programmes (2018)

Programme	Genre	Programme name	Number of performances
1	Dance	American Ballet Theatre — <i>Whipped Cream</i>	7
2	Dance	Asia Pacific Dance Platform X — <i>Dance, if you want to enter my country!</i>	2
3	Dance	Asia Pacific Dance Platform X — <i>Gravitas/ Between Tiny Cities</i>	2
4	Dance	Asia Pacific Dance Platform X — <i>if it's all in my veins</i>	2
5	Dance	Ballett Zurich — <i>Anna Karenina</i>	4
6	Dance	Israel Galvan — <i>FLA.CO.MEN</i>	2
7	Dance	PPS Danse — <i>Playing Hooky</i>	3
8	Dance	Saburo Teshigawara   KARAS — <i>Tristan and Isolde</i>	4
9	Dance	Svetlana Zakharova & Vadim Repin — <i>Pas de deux for Toes and Fingers</i>	2
10	Dance	The Hong Kong Jockey Club Contemporary Dance Series — <i>Dance Exchange</i>	2
11	Dance	The Hong Kong Jockey Club Contemporary Dance Series — <i>Dance Off</i>	6
12	Dance	The Hong Kong Jockey Club Contemporary Dance Series — <i>The Battle Zone   Vortex</i>	2
13	Music	Al Ayre Espanol — <i>Spanish Treasures in the Americas</i>	1
14	Music	<i>Beyond Impressionism</i> — Piano Concert and Film Screening	1
15	Music	B'Rock Orchestra — <i>Sounding Stories</i>	1
16	Music	Cecile McLorin Salvant and the Aaron Diehl Trio	2
17	Music	Chris Botti	2
18	Music	Danish National Symphony Orchestra	1
19	Music	Estonian National Symphony Orchestra and Estonian National Male Choir	2
20	Music	Hong Kong Chinese Orchestra — <i>Liu Bang, Xiang Yu and the Terra Cotta Warriors</i>	1



**Appendix A**  
(Cont'd)  
(paras. 1.5(a)(iii)  
and 2.2 refer)

Programme	Genre	Programme name	Number of performances
21	Music	Jean-Claude Pennetier Piano Recital	1
22	Music	Maxim Rysanov & Hong Kong Sinfonietta	1
23	Music	Nouveau Jazz Weekend — Vila Navio/ <i>Fortuna Plays Szymborska</i> /Maciej Fortuna Special Quartet	4
24	Music	<i>O is for OPERA!</i> Family Concert by Welsh National Opera	1
25	Music	State Academic Symphony Orchestra of Russia “Evgeny Svetlanov”	3
26	Music	Trio Pennetier Pasquier Pidoux	1
27	Music	Verbier Festival Chamber Orchestra	1
28	Music	Vox Clamantis	2
29	Music	World Music Weekend — Anna Maria Jopek and Kroke/Songhee Pansori LAB/Namgar	4
30	Opera	Cantonese Opera — <i>Farewell My Concubine</i>	3
31	Opera	Cantonese Opera — <i>Pavilion of a Hundred Flowers</i>	3
32	Opera	China National Peking Opera Company	4
33	Opera	Welsh National Opera — Debussy’s <i>Pelleas et Melisande</i>	2
34	Theatre	Actors Touring Company and Royal Lyceum Theatre Edinburgh — <i>The Suppliant Women</i>	5
35	Theatre	Claude Redy — <i>Dream and Derangement</i>	4
36	Theatre	<i>Doctrine of Happiness</i>	8
37	Theatre	Isango Ensemble — <i>A Man of Good Hope</i>	4
38	Theatre	Les 7 Doigts de la Main & Theatre Republique — <i>Bosch Dreams</i>	3
39	Theatre	National Theatre of Great Britain — <i>The Curious Incident of the Dog in the Night-Time</i>	14
40	Theatre	Nature Theater of Oklahoma & EnKnapGroup — <i>Pursuit of Happiness</i>	3
41	Theatre	<i>The Great Learning</i>	8
42	Theatre	Theatre of Nations, Moscow — <i>Shukshin’s Stories</i>	2
Total			130

Source: HKAFSL records

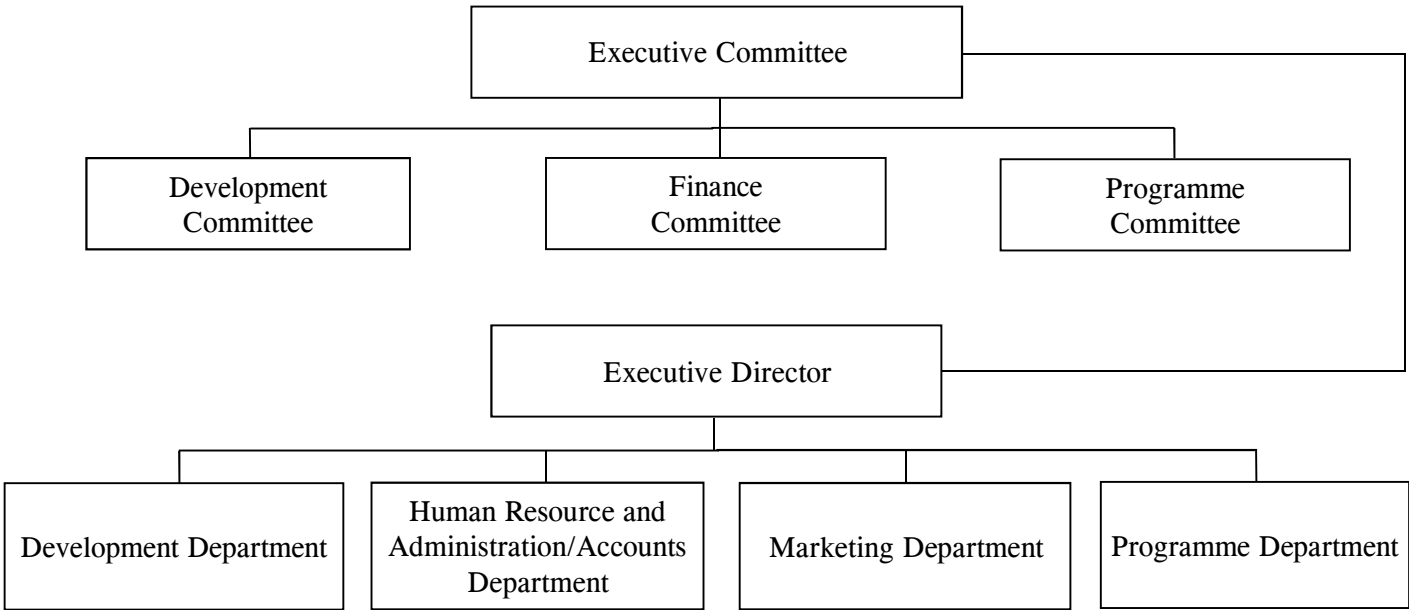
## International artists and ensembles presented in Hong Kong Arts Festivals

According to HKAFSL, it has over the years presented in HKAFs top international artists and ensembles across multiple genres, such as:

- (a) ***Western opera:*** Bavarian State Opera, Oper Leipzig, The Bolshoi Theatre, and The Mariinsky Theatre;
- (b) ***Chinese opera:*** China National Peking Opera Company, Hebei Clapper Opera Troupe, Shanghai Zhang Jun Kunqu Art Center, Suzhou Kunqu Opera Company of Jiangsu, and Zhejiang Xiaobaihua Yue Opera Troupe;
- (c) ***Classical music:*** Cecilia Bartoli, Riccardo Chailly, Seong-Jin Cho, Gustavo Dudamel, Philip Glass, Yo-Yo Ma, Denis Matsuev, Anna Netrebko, Gianandrea Noseda, Seiji Ozawa, Gennady Rozhdestvensky, Christian Thielemann, London Symphony Orchestra, NHK Symphony Orchestra, Royal Concertgebouw Orchestra, Rundfunkchor Berlin, Thomanerchor Leipzig, and Vienna Philharmonic Orchestra;
- (d) ***Jazz and world music:*** Bobby McFerrin, Youssou N'Dour, Esperanza Spalding, Orquesta Buena Vista Social Club, and Pink Martini;
- (e) ***Dance:*** Mikhail Baryshnikov, Sylvie Guillem, Akram Khan, American Ballet Theatre, Cloud Gate Dance Theatre, The Hamburg Ballet — John Neumeier, New York City Ballet, Paris Opera Ballet, and Tanztheater Wuppertal Pina Bausch; and
- (f) ***Theatre:*** Peter Brook, Yukio Ninagawa, Robert Wilson, Berliner Ensemble, National Theatre of China, and Royal Shakespeare Company.

Source: HKAFSL records

**Hong Kong Arts Festival Society Limited:**  
**Organisation chart (extract)**  
**(31 December 2018)**



Source: HKAFSL records

**Acronyms and abbreviations**

AGM	Annual general meeting
Audit	Audit Commission
FSA	Funding and service agreement
HAB	Home Affairs Bureau
HKAF	Hong Kong Arts Festival
HKAFSL	Hong Kong Arts Festival Society Limited
IRD	Inland Revenue Department
LCSD	Leisure and Cultural Services Department
YFS	Young Friends Scheme