

Mega Events Fund

A. Introduction

The Audit Commission ("Audit") conducted a review of the overall operation, management and effectiveness of the Mega Events Fund ("MEF").

Background

2. In May 2009, the Finance Committee ("FC") of the Legislative Council ("LegCo") approved a commitment of \$100 million for setting up the MEF for three years to provide financial support for local non-profit-making organizations to host mega arts, cultural and sports events in Hong Kong ("original MEF").

3. In April 2012, the FC approved another commitment of \$150 million to support the MEF which would continue for another five years up to March 2017. The MEF was at the same time modified into a two-tier MEF to enhance flexibility and facilitate its effective operation ("modified MEF"). The modified MEF covers:

- Tier 1 which is a new mechanism to attract new or established high profile mega events to Hong Kong. These events may be owned or operated by private event management companies or professional organizations established outside Hong Kong; and
- Tier 2 which is essentially a revised version of the original MEF with scope expanded to cover events with more entertainment elements¹.

4. To be qualified for financial support from the MEF, an event (either Tier 1 or Tier 2) must meet the following four basic broad principles:

- the event should raise the profile of Hong Kong internationally, create a branding impact, attract visitors to come to Hong Kong specifically for the event and/or lengthen their stay in Hong Kong and generate media coverage (both local and overseas);

¹ Tier 2 improvements include expanding the MEF scope to cover entertainment events, removing the practice of reducing the funding amount for repeated applications and allowing organizers to retain operating surplus for organizing the same event in the following year.

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- the mega arts, cultural, sports or entertainment event should be of a considerable scale, with at least 10 000 people involved (including participants, spectators and reporters);
- the event should contain an international element and include participants from the Mainland and overseas; and
- the event should allow participation by the local public.

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

6. The MEF is administered by the Tourism Commission ("TC") of the Commerce and Economic Development Bureau ("CEDB"), with the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) serving as the Controlling Officer of the Fund. A MEF Assessment Committee was formed in June 2009 to advise the Government on the administration of the MEF². Six TC staff, with other duties, formed the MEF Secretariat which was set up to support the MEF Assessment Committee and the operation of the MEF.

7. For the operation of the MEF, the TC generally invites applications twice a year through the mass media and its website. For each round of applications, the MEF Secretariat conducts an initial screening of the applications and will consult relevant Government bureaux/departments ("B/Ds") and the Hong Kong Tourism Board ("HKTB") to assess the merits of the applications before making submissions to the MEF Assessment Committee. In considering the applications³, the MEF Assessment Committee takes into account the following assessment criteria:

2 As at 12 June 2014, the MEF Assessment Committee is chaired by a non-official member and comprises seven other non-official members from relevant fields and three official members. The terms of reference of the MEF Assessment Committee under the original MEF and the modified two-tier MEF are in *Appendices 13 and 14* respectively.

3 According to the TC, the assessment criteria for the Tier 1 scheme are being developed.

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- the economic benefits of the proposal, such as the number of visitors and participants to be brought to the event, their likely length of stay, jobs to be created, etc;
- public relations and other benefits of the proposal, such as the event's ability to raise Hong Kong's international profile and the publicity value that will be generated in local and non-local media;
- the scale of the event, particularly the number of participants;
- the applicant's technical and project management capability, background and governance structure, track record, and whether the proposed implementation plan of the proposed event is practicable and reasonable, etc.; and
- financial viability of the project, whether the proposed budget is prudent and realistic, with sufficient alternative sources of funding, and whether the proposed performance indicators are reasonable.

In order to have a better understanding of selected applications, the MEF Assessment Committee invites eligible applicants for a presentation before finalizing its view. The MEF Assessment Committee will make recommendations on individual applications to the Controlling Officer of the Fund who may, in his absolute discretion, decide whether or not to approve an application; the appropriate amount of MEF funding to be approved; and the appropriate terms and conditions that might be applied to individual events. He may also decide to impose additional terms and conditions in the agreement, including stipulate specific terms and conditions for the use of the MEF funding.

8. A marking scheme detailing the above assessment criteria has been developed (in *Appendix 15*). Applications that received an average overall score of at least 60 (out of 100) and 60% of the maximum score for each of the five assessment criteria would be eligible for being recommended for MEF funding support. To enable the interested applicants to clearly understand their eligibility and the assessment criteria, a detailed MEF Guide to Application and the marking scheme were available at the dedicated MEF website.

9. The application form for MEF funding and the Guide to Application is in *Appendix 16*, and the standard MEF funding agreement (English version only) is in *Appendix 17*.

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10. Since its inception and up to February 2014, the MEF had supported the hosting of 24 events, involving approved MEF funding of \$97 million (\$51 million under the original MEF and \$46 million under the modified MEF). Of the 23 events already held, 22 had been completed by mid-February 2014, i.e. organizers had already submitted their post-event evaluation reports and audited accounts for the events as required by the MEF. Amongst the 22 completed MEF events as of February 2014, nine (41%) events had been subject to financial sanctions imposed by the TC, with funding reductions ranging from \$0.1 million to \$1.1 million. Two event organizers were disallowed to apply for MEF funds in future. Financial sanctions had been imposed due to the organizers' non-compliance with the terms and conditions of the funding agreements and/or their less than satisfactory performance.

The Committee's Report

11. The Committee's Report sets out the evidence gathered from witnesses. The Report is divided into the following parts:

- Introduction (Part A) (paragraphs 1 to 13);
- Achievement of the MEF objectives (Part B) (paragraphs 14 to 39);
- Assessment of applications (Part C) (paragraphs 40 to 63);
- Monitoring and evaluation of events (Part D) (paragraphs 64 to 104);
- Way forward (Part E) (paragraphs 105 to 112); and
- Conclusions and recommendations (Part F) (paragraphs 113 to 115).

Public hearings

12. The Committee held five public hearings on 12 and 17 May and 7, 9 and 17 June 2014 to receive evidence from witnesses. **Mr Andrew WONG Ho-yuen, Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)**, made a statement at the beginning of the first public hearing held on 12 May 2014. The full text of his statement is in *Appendix 18*.

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Disclosure

13. At the beginning of each of the five public hearings,
- **Hon Abraham SHEK** disclosed that he and Hon Jeffrey LAM Kin-fung, Chairman of the Mega Events Fund Assessment Committee ("MEF Assessment Committee"), were both members of the Business and Professionals Alliance for Hong Kong. **Mr SHEK** also disclosed that he had donated money to either Event C1, C2, C3 or C4 referred to in the Director of Audit's Report ("Audit Report");
 - **Hon Paul TSE** disclosed that he and Hon CHAN Kam-lam, Convenor of the organizer of Events C1, C2, C3 and C4, were both candidates contesting for a Kowloon East geographical constituency seat in the 2012 LegCo election. **Mr TSE** also disclosed that being a LegCo Member returned from the tourism functional constituency, he might have attended some MEF events during the period from 2008 to 2012;
 - **Hon Alan LEONG** disclosed that he and Hon CHAN Kam-lam, Convenor of the organizer of Events C1, C2, C3 and C4, were both candidates contesting for a Kowloon East geographical constituency seat in the 2004, 2008 and 2012 LegCo elections; and
 - **Hon CHAN Hak-kan** disclosed that he and Hon CHAN Kam-lam, Convenor of the organizer of Events C1, C2, C3 and C4, were both members of the Democratic Alliance for the Betterment and Progress of Hong Kong. **Mr CHAN** also disclosed that he had attended the Hong Kong Well-wishing Festival 2013 and the Manchester United Asia Tour 2013 (Hong Kong Leg) funded by the MEF.

B. Achievement of the MEF objectives

Review of the funding procedures of the MEF by the Independent Commission Against Corruption ("ICAC")

14. According to paragraph 1.10 of the Audit Report, since the inception of the MEF, the ICAC had been providing advice to the TC on the funding procedures of the Fund. In view of the risk of abuse, the ICAC conducted a follow-up study in 2010 to review the adequacy of the safeguards in the TC's procedures. In its Assignment Report of September 2010, the ICAC made recommendations to further enhance the application procedures to prevent corruption arising from the MEF scheme.

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15. According to paragraph 1.11 of the Audit Report, after presenting the Assignment Report to its Corruption Prevention Advisory Committee ("CPAC"), the ICAC further recommended that the TC should issue more stringent guidelines for its staff in evaluating events that involved substantial grants and carried a commercial name. Furthermore, the ICAC raised its concern with the need for continuing the MEF which was set up at a time of financial difficulties and, in view of the changed economic situation, suggested that the TC should consider returning the unused funds (i.e. the balance of the time-limited MEF of \$100 million) to the Government. As it transpired, the MEF had continued to operate and in April 2012, the CEDB/TC introduced a modified two-tier MEF which comprised a new category called Tier 1 with Tier 2 which is essentially a revised version of the original scheme operated by the MEF.

16. Noting that the CEDB did not mention the ICAC review, including the doubts of the ICAC about the need for continuing the MEF, in its funding proposal to the FC on 27 April 2012 for the setting up of the modified MEF, the Committee enquired about the reasons for such non-disclosure and whether this was deliberate.

17. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** explained that:

- the Assignment Report of September 2010 on the administration of the MEF did not contain any recommendation on whether the MEF should be continued. When the Corruption Prevention Department ("CPD") of the ICAC sent the Assignment Report to the TC in November 2010, it mentioned in the covering letter that members of the CPAC also doubted the need for continuing the MEF which was set up at the time of financial difficulties and, in view of the changed economic situation, suggested that the TC should consider returning the unused funds to the Government. The TC informed the CPD that the Government would examine the way forward to the MEF in 2011, and had indeed taken the said view into account when reviewing the way forward for the MEF in 2011. The conclusion of the review was that Hong Kong's economic situation had indeed changed, but Hong Kong was facing fierce competition from neighboring cities in seeking to host mega events. In view of this, the TC considered that the operation of the MEF should be extended, but that the scheme should be revised. The conclusion of the review was explained in the CEDB's submission to the FC on 27 April 2012;

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- there was no question of the CEDB deliberately not informing the FC of the concerns raised by CPAC members about the need of continuing the MEF. The CEDB/TC's view then was that the Assignment Report focused on the prevention of corruption through more corruption prevention measures to the MEF. The recommendations had been put into practice. The suggestion made by CPAC members for the TC to consider returning the unused funds to the Government contained in the CPD's letter was more a policy question and not related to corruption prevention. As the TC had returned the balance of the time-limited MEF to the public coffer in accordance with the established practice of other time-limited Government funds, the CEDB therefore did not flag up the CPD's report nor the contents of the CPD's letter in the submission to the FC; and
- as Hong Kong was faced increasingly with challenges caused by zealous effort of competitor cities such as Singapore, Seoul, Macau and Shanghai in attracting mega events and entertainment projects through providing financial and other incentives, the Government had therefore decided to revamp the MEF by introducing a new Tier 1 system that aimed at attracting new or renowned international mega events to Hong Kong, and revising the previous system to form a more flexible Tier 2 system with a view to supporting local non-profit-making bodies to hold events that had the potential of developing into mega events, especially those that could showcase Chinese or local cultural features.

18. **Miss Rosanna LAW, Deputy Commissioner for Tourism**, supplemented that:

- in the update on the progress of the MEF for the meeting of the LegCo Panel on Economic Development held on 22 November 2010, the CEDB/TC had mentioned in paragraph 7 of the relevant paper that the ICAC, amongst others, had been consulted on the modus operandi of the MEF. In accordance with the ICAC's advice, a set of probity guidelines for members of the MEF Assessment Committee, which covered acceptance of advantage and entertainment, declaration of conflict of interest, handling of confidential and privileged information and misuse of one's official capacity was developed. Members of the MEF Assessment Committee were also required to declare their interests, including employment in public and other services, and such information was open for public inspection upon request; and

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- as the LegCo Panel on Economic Development had been informed of the ICAC review and the TC had accepted and implemented all of the ICAC recommendations since December 2010, the CEDB/TC's view then was that there was no need to include the ICAC review in the CEDB's submission to the FC in 2012.

19. The Committee queried whether the reason for CPAC members to suggest that the MEF should be discontinued was that there was a high risk of abuse of the Fund.

20. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** responded that:

- the CPD did not mention in its Assignment Report of September 2010 on the administration of the MEF that there were serious flaws in the control and monitoring mechanism of the Fund. Rather, the CPD's study recommended a series of measures that should be taken to make the existing mechanism more stringent from the corruption prevention angle. The recommendations had been put into practice; and
- the concern raised by some CPAC members about the need to continue the MEF in view of the improved economic situation was more a policy question and not related to corruption prevention. Nevertheless, the CEDB and the TC had taken into account the concern of these CPAC members in their overall review of the MEF in 2011, as evidenced in the TC's reply to the CPD dated 1 February 2011 enclosing a summary of implementation status of the CPD's recommendations in which it was stated that the Administration would examine the way forward of the MEF in mid 2011 (in *Appendix 19*).

21. At the request of the Committee, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** provided the CPD's Assignment Report of September 2010 on the administration of the MEF and the CPD's covering letter dated 15 November 2010 sent to the TC (in *Appendix 20*). The Report had set out a series of recommendations on further enhancing the approval procedures and the monitoring system of the MEF. These include:

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- including the applicants' background and governance structure, track records, and human, financial and technical resources in the marking scheme to ensure that the successful applicants are capable of operating the events to the Government's satisfaction;
- verifying the values of sponsorships in kind included in the proposed budgets against the market prices of the sponsored items as appropriate;
- providing a copy of the Best Practice Checklists on procurement and staff recruitment issued by CPD to the grantees and advising them to seek CPD's assistance in adopting the best practices;
- requiring the grantees to establish a two-tier approval system for the hiring of key personnel or award of major procurement contracts to enhance checks and balances;
- issuing guidelines on the disposal of the equipment acquired with the MEF funds, requiring the grantees either to sell the equipment and return the proceeds to the Government or, if the grantees are allowed to keep the equipment, to properly record it for audit checks;
- designing a standard monitoring report form for recording the observations made in site visits by the TC's staff and the members of the MEF Assessment Committee;
- requiring the staff concerned to randomly verify the number of staff employed by the grantees when making site visits, and the number and price of the equipment purchased; and
- issuing guidelines on different levels of enforcement action for non-compliance with the funding conditions, taking into account the nature of the breaches.

22. Noting from the CPD's covering letter to the TC in November 2010 that the concern about the need to continue the MEF, in view of the improved economic situation, was raised by CPAC members instead of by the ICAC as mentioned in paragraph 1.11 of the Audit Report, the Committee sought clarification on why Audit changed the concern raised from CPAC members to the ICAC.

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23. **Mrs Josephine NG LEUNG Wai-fun, Deputy Director of Audit,** responded that:

- it was the standard practice of Audit to provide the draft Audit Report to witnesses for comments so that their comments could be incorporated into the Audit Report before publication. As the ICAC was mentioned in certain paragraphs of the draft Audit Report, the draft Audit Report was also provided to the ICAC for comments;
- in paragraph 1.11 of the draft Audit Report, Audit had followed the wordings in the CPD's covering letter to the TC in November 2010 in that the concern about the need of continuing the MEF were raised by CPAC members; and
- changes were subsequently made to paragraph 1.11 of the draft Audit Report, after considering the suggested changes to the paragraph from the ICAC. The reasons given by the ICAC for the changes were that it was not the usual practice of the ICAC to quote whether and which individual recommendations of its assignment reports were made by CPAC members when making the issue known publicly. As the advice from the CPAC on the draft report was an integral process of completing and endorsing the assignment studies, the ICAC considered it unnecessary to differentiate the recommendations made by the CPAC members from other recommendations in the assignment report.

24. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** said that Audit did not provide the revised paragraph 1.11 of the draft Audit Report to the CEDB and the TC for comments. If this had been done, the CEDB and the TC would not have agreed to the changes as now presented in paragraph 1.11 of the published Audit Report.

25. At the request of the Committee,

- **Mr Simon PEH Yun-lu, Commissioner, ICAC,** provided a response on the reasons for the ICAC's suggested changes to paragraph 1.11 of the draft Audit Report (in *Appendix 21*); and
- **Mr TSE Man-shing, Director of Corruption Prevention, ICAC,** provided a response on the reason for members of the CPAC to raise the

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concern about the need to continue the MEF and the number of CPAC members who had raised such concern (in *Appendix 22*).

26. The Committee pointed out that one of the terms of reference of the MEF Assessment Committee was to advise on any matters related to the MEF as referred by the Secretary for Commerce and Economic Development or the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism). On the question as to whether the MEF Assessment Committee had been informed of the concern raised by some CPAC members about the need of continuing the MEF in view of the improved economic situation, **Deputy Commissioner for Tourism** replied as follows:

- during the course of the study by the CPD on the administration of the MEF, the TC had informed the MEF Assessment Committee of the progress of the study via email;
- the TC did not provide to the MEF Assessment Committee the CPD's covering letter dated 15 November 2010 sent to the TC and the Assignment Report of September 2010 on the administration of the MEF because the Assignment Report was focused on the prevention of corruption through introducing more corruption prevention measures to the MEF. The suggestion by members of the CPAC for the TC to consider returning the unused funds to the Government contained in the covering letter was more a policy matter and not related to corruption prevention;
- although the TC did not provide the MEF Assessment Committee with the CPD's covering letter dated 15 November 2010 enclosing the Assignment Report of September 2010 on the administration of the MEF, the full set of CPD's recommendations was reported to the MEF Assessment Committee through an MEF Assessment Committee paper for discussion at its meeting on 2 December 2010. At the meeting, the MEF Assessment Committee was further invited to endorse a series of proposed measures that aimed to take forward the CPD's recommendations; and
- prior to seeking approval from the FC on 27 April 2012 for funding commitment of \$150 million for extending the operation of the MEF under a modified two-tier system, the CEDB and the TC had consulted the MEF Assessment Committee on the way forward of the MEF at two meetings on 2 August 2011 and 14 February 2012. At the meeting on

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2 August 2011, the MEF Assessment Committee was also updated on the implementation status of the ICAC's recommendations on the administration of the MEF through an MEF Assessment Committee paper (in *Appendix 23*). The views of members of the CPAC, including that on returning the unused MEF upon the lapse of the funding scheme, were included in the summary of recommendations/views attached to the MEF Assessment Committee paper.

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

27. As revealed in paragraph 2.8 of the Audit Report, the number of rejected applications remained high at 69%. This indicates that many of the applicants still did not understand the MEF basic broad principles and/or many of the proposed events could not reach the standard required by the MEF Assessment Committee and the TC. The Committee enquired about the measures which would be taken to address the high percentage of rejected applications, and if so, what they were.

28. **Deputy Commissioner for Tourism** responded that:

- in the past, the TC had, upon request, informed unsuccessful applicants of the main reason(s) for their failure in applying for MEF grants, e.g. which criterion/criteria they had failed to meet; and
- the TC would, starting from the next round of Tier 2 applications, state in the regret letter for every unsuccessful application the main reasons for the failure.

29. According to paragraph 2.10 of the Audit Report, even with the small number of 24 applications approved and with 22 events completed by February 2014, nine events had been subject to financial sanctions imposed by the TC. At the request of the Committee, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** provided, after the public hearing on 17 May 2014, the guidelines on level of sanction to be imposed by the TC on MEF grantees (in *Appendix 24*). The relevant guidelines have been in force since December 2010.

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Reported achievements not always verified

30. According to paragraph 2.15 of the Audit Report, in April 2012, when seeking approval for funding commitment for the modified MEF, the CEDB informed the FC that the 16 MEF events approved as of March 2012 had created a total of about 10 000 jobs and had attracted a total of over 900 000 participants (including more than 170 000 non-local visitors).

31. Although the 16 events were reported to have created a total of about 10 000 jobs during the events periods, it is revealed in paragraph 2.17 of the Audit Report that although the MEF Secretariat staff conducted headcounts on the number of the organizers' staff present during on-site inspections, they did not randomly verify the number of paid staff employed for the events, nor did they carry out subsequent checks of the organizers' recruitment and payroll records. As a result, there could be a risk of over-reporting in the number of paid jobs created. An example of one event with inadequacies in the Secretariat's on-site inspection in monitoring the number of paid jobs created is shown as follows:

- Event C4⁴ was a one-day event (involving MEF approved funding of \$1.5 million) held in a popular tourist shopping district in early 2014. In the funding agreement, the organizer undertook to create a minimum of 3 100 paid jobs for the people of Hong Kong, including 3 000 performers of specified types; and
- on the event day, three MEF Secretariat staff conducted an on-site inspection, accompanied by two Audit staff (attending the event as observers). Specifically, Audit noted the following:
 - (a) the event was, prima facie, smoothly run and had been able to create a festive atmosphere;
 - (b) during the event, MEF Secretariat staff conducted a headcount of the number of the organizer's staff present at the time of their inspection along the parade route, and reported that about 2 650 performers and supporting staff participated in the event. The number however could cover both "paid" and "non-paid" performers/staff because the MEF Secretariat staff had not made

4 Event C4 was a repeated event and similar events (namely Events C1, C2 and C3) had been held by the organizer from 2011 to 2013.

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any attempt to verify the attendance records of the paid performers/staff; and

- (c) nonetheless, many performers involved in specified shows on the event day were not professional ones, with many young children accompanied by parents/teachers and with some elderly people.

32. Responding to the Committee's enquiry about whether the MEF Secretariat would conduct random verification on the number of employed staff for an MEF event by the grantee, **Deputy Commissioner for Tourism** advised that the TC would develop a robust mechanism to validate whether the deliverables and targets of the MEF events (e.g. the target number of paid jobs created) had been achieved. Details of the proposed enhancement measures included the following:

- conducting random checks on the deliverables and targets (e.g. number of paid jobs created) as reported by the organizers in their post-event evaluation reports. Resources permitting, random checks against the employment contract, payroll records, bank statement or other evidence as appropriate would also be conducted;
- conducting random verification on the staff employed for the events against the attendance records on the spot during the MEF Secretariat's on-site inspection;
- requesting the organizers to specify clearly the number of local/non-local participants, visitors, employees and reporters respectively without overlapping and identify ways for random checking; and
- improving the documentation of the checking and/or clarifications made with the organizers as appropriate, and continuing to endeavour to check the validity of the events' recruitment as far as practicable.

33. On the numbers of participants in the MEF events, the Committee noted from paragraph 2.22 of the Audit Report that the organizers were not required to inform or agree with the MEF Secretariat beforehand the counting methods adopted and the Secretariat seldom verified or raised queries on the counting methods or the results the organizers reported in their post-event evaluation reports. The number of non-local visitors was usually projected by the organizers based on the percentage of non-local visitors interviewed in their feedback surveys conducted.

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34. Responding to the Committee's enquiry about the steps that had been/would be taken by the MEF Secretariat to verify the number of participants in the MEF events, **Deputy Commissioner for Tourism** advised as follows:

- under the four prevailing broad principles for considering MEF applications, an event should be of a considerable scale with at least 10 000 people involved (including participants, spectators and reporters). An applicant for the MEF should state in its application form the estimated number of people to be involved in the event. The funding agreement signed between the Government and the successful applicant (i.e. the event organizer) would stipulate the pre-determined deliverables and targets that the event organizer should achieve, including the number of people to be involved in the event. On the event day/during the event period, members of the MEF Secretariat would conduct on-site observation of the event's implementation, including its attendance;
- upon the completion of an event, the event organizer was required to submit to the Secretariat of the MEF Assessment Committee an evaluation report detailing the event result. The evaluation report should set out, inter alia, the number of people involved in the event. The event organizer must also submit the audited accounts of the event certified by an independent registered Certified Public Accountant ("CPA") who should provide his opinion on whether the organizer had complied with all terms and conditions of the funding agreement concerned and whether any non-compliance by the organizer of any terms and conditions of the funding agreement was found;
- when scrutinizing the post-event evaluation report, the Secretariat of the MEF Assessment Committee would verify the number of people involved in the event (including participants, spectators and reporters) as stated in the report by cross-checking the Secretariat's on-site observation. The MEF Secretariat would also make reference to the evidence provided by the event organizer. For events held in a self-contained venue, such evidence would include the clicking record at the entrance(s) of the event venue, report on the admission tickets sold/issued, or stubs of admission tickets. For events held in an open area with free-flow of pedestrians, the Secretariat of the MEF Assessment Committee would examine the survey report produced by the event organizer, media clippings reporting the attendance of the event, photos showing the event crowds, or where available the pedestrian-flow figures released by the Hong Kong Police Force; and

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- the TC would consider requesting the organizers to develop more scientific methods in counting participants such as by commissioning tertiary institutions or professional entities to conduct the survey, etc.; indicating their counting method in the application form; and assisting the TC in counting the staff employed for the event during the MEF Secretariat's on-site inspection as far as practicable.

35. At the request of the Committee, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** provided, after the public hearing on 17 May 2014, information on the MEF-supported events subject to financial sanctions due to failure to achieve target of number of people involved in the event (in *Appendix 25*).

Developing special tourist packages

36. According to paragraph 2.26 of the Audit Report, although the MEF funding agreements had generally laid down the requirement for the organizers to develop special tourist packages to attract visitors to the events, no measurable target was set in the funding agreements on the number of special tourist packages to be developed. Audit reported in paragraph 2.27 of its Report that for nine of the 18 events with the requirement of developing special tourist packages included in the funding agreements, the organizers reported in their post-event evaluation reports that no such packages could be developed. Given that the MEF aimed at attracting visitors to come to Hong Kong specifically for the events, the Committee enquired about the reason for not setting a measurable target in the MEF funding agreements on the number of special tourist packages to be developed.

37. **Deputy Commissioner for Tourism** responded that:

- the reason for not setting a measurable target in the MEF funding agreement on the number of special tourist packages to be developed was because there were practicable reasons which could render it not possible for the organizer to come up with such tours, such as lack of capability and experience of the organizer to develop such packages and not enough time to develop or sell such packages;
- the fact that no special tourist packages were developed for some events as stipulated in the funding agreements did not necessarily mean that the number of non-local visitors attending the events was less than the target

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numbers, as evidenced by the on-site inspections conducted by the MEF Secretariat and other means such as the survey report produced by the event organizer, media clippings reporting the attendance of the event, photos showing the event crowds, or where available the pedestrian-flow figures released by the Hong Kong Police Force; and

- the TC, would consider, taking into account the circumstances of individual events, setting a reasonable target in the MEF funding agreements on the number of special tourist packages to be developed.

38. Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) supplemented that:

- although no measurable target was set on the number of special tourist packages to be developed by the organizer, the organizer should provide reason in the post-event evaluation reports on why no such packages could be developed; and
- there was no question of the MEF Assessment Committee not following the guidelines and criteria in evaluating the performance of the grantee in organizing the event. Although the grantees were required to comply with all the terms and conditions in the funding agreements, it was not realistic to expect the grantees, which were local non-profit-making organizations, to do so as many of them lacked the capability and experience to host large scale events. The MEF Assessment Committee would take into account the nature, seriousness and circumstances of the non-compliance and the overall outcome of the event before making recommendation on the level of sanction to be imposed. As mentioned in paragraph 2.10 of the Audit Report, two event organizers were disallowed to apply for MEF funds in future for failing to comply with the terms and conditions of the funding agreements and/or their less than satisfactory performance.

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

39. Responding to the Committee's enquiry as to why a few MEF events were also financially supported by other Government funding sources/schemes (paragraph 2.37 of the Audit Report refers), **Deputy Commissioner for Tourism** advised that:

- an event for which public funding would normally be earmarked under other Government funding sources/schemes would not be considered for

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MEF funding unless full justification was given to the satisfaction of the MEF Assessment Committee and the Controlling Officer of the MEF that the additional funds sought would be deployed strictly to organize additional activities to significantly enlarge the scale of the event or significantly raise its international profile;

- to prevent duplication of public funding for MEF-supported events, applicants were required to mention in their application forms if they would receive funding from other Government sources/schemes to cover certain expenditures of the proposed events. Moreover, representatives from the Home Affairs Bureau ("HAB") responsible for the policies on sports, culture and arts also sat on the MEF Assessment Committee; and
- the Government's total contributions, including MEF funding, to an MEF-supported event would not exceed 50% of the total cost of the event.

C. Assessment of applications

Governance of the MEF Assessment Committee

Members' attendance

40. According to paragraph 3.5(a) of the Audit Report, up to January 2014, the MEF Assessment Committee had held 14 meetings. Amongst the six non-official members (not including the Chairman), the attendance of two was particularly low, with one absent continuously for six meetings and another absent for four of the seven meetings since November 2011. The two members' attendance in all 14 meetings was 50% and 57% respectively. The Committee considered that given that members in the MEF Assessment Committee represented different sectors, their low attendance might have deprived them of taking an active part in assessing the applications and the Government could not always obtain their expert advice in the assessment and selection of events.

41. **Hon Jeffrey LAM Kin-fung, Chairman of the MEF Assessment Committee**, responded that the quorum of the MEF Assessment Committee meeting was 50% of the membership of the Assessment Committee. To his knowledge, no meeting of the MEF Assessment Committee had been cancelled due to lack of a quorum.

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42. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** supplemented that:

- although some of the non-official members of the MEF Assessment Committee needed to travel extensively due to business needs and might not be available for meetings as often as desirable, those members who could not attend the meetings had often provided pertinent advice on the basis of their vast experience in relevant sectors, in writing prior to the meetings to facilitate the MEF Assessment Committee's discussion; and
- to improve the attendance rate of the MEF Assessment Committee, the MEF Secretariat would try to schedule a meeting which most members could attend, take the lead to ask those members who would not be available for a meeting to provide written advice prior to the meeting, and arrange telephone or video conference where appropriate.

Conflict of interest

43. On how the MEF Assessment Committee managed conflict of interest in assessing applications, **Deputy Commissioner for Tourism** advised that:

- in accordance with the MEF Assessment Committee meeting arrangements, should a member (including the Chairman) had any direct or potential personal or pecuniary interest in any matter under consideration by the MEF Assessment Committee, the member (including the Chairman) must, as soon as practicable after he became aware of it, disclose the details of such conflict prior to the discussion of the item. The Chairman of the MEF Assessment Committee should decide whether the member of the MEF Assessment Committee who made the declaration of interests should refrain from taking part in the discussion or deliberation of the relevant application and should withdraw from the meeting. The MEF Assessment Committee should decide on the case if the declaration was made by the Chairman of the MEF Assessment Committee; and
- there had so far been a total of 12 occasions whereby members (including the Chairman) of the MEF Assessment Committee had made declaration of interests in respect of individual applications put to the MEF Assessment Committee for consideration. On these occasions, all of the concerned members (including the Chairman) of the MEF

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Assessment Committee were allowed to stay at the meetings concerned, albeit they were not allowed to give scores to the applications.

Assessment of applications

44. **Chairman of the MEF Assessment Committee** advised that:

- in deciding whether or not to support an application for MEF funding, major considerations had always been given to whether the proposed events could raise the profile of Hong Kong internationally, attract visitors to come to Hong Kong specifically for the events, generate media coverage both locally and overseas and develop Hong Kong's ability in hosting large scale iconic events; and
- the MEF Assessment Committee assessed each application individually, having regard to the four broad basic principles set out in paragraph 4 above and the five assessment criteria set out in paragraph 7 above.

45. On the steps that had been taken by the MEF Assessment Committee to assess that the deliverables and target proposed in the applications for MEF funding were reasonable, **Deputy Commissioner for Tourism** advised as follows:

- under paragraph 5.1.4 of the MEF Guide to Application referred to in paragraph 9 above, an applicant for the MEF was required to state, inter alia, the event's deliverables, targets and methods for measuring performance in the application form, and to provide necessary document proof for the MEF Assessment Committee's consideration. Apart from checking whether an application could fulfil the four broad basic principles, the MEF Assessment Committee would also conduct a preliminary assessment on the reasonableness of the application's proposed deliverables and targets, including the estimated number of participants/spectators (e.g. whether the proposed venue could reasonably accommodate the expected number of participants/spectators); the estimated number of visitors (e.g. whether the suggested proportion of visitors out of the total number of attendees seemed reasonable); and the estimated number of jobs to be created by the event (e.g. whether the proposed number of jobs and their respective duration were reasonable given the event's proposed scale); and

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- in addition, the MEF Secretariat would pass the application to relevant B/Ds and the HKTB for their views on the targets and deliverables proposed by the applicant. Should the need so arise, the MEF Secretariat would also seek further clarification and/or supplementary information from the applicant. The MEF Secretariat would present their assessment and the views collected for the MEF Assessment Committee's consideration. The applicant would also be invited to present the proposed event before the MEF Assessment Committee, and members of the MEF Assessment Committee could raise questions on all aspects of the application, including the event's proposed deliverables and targets, during the presentation.

46. On how much weight did the MEF Assessment Committee give to the proposed number of paid jobs that could be created by an event in assessing an application for MEF funding, **Deputy Commissioner for Tourism** advised as follows:

- the number of jobs to be created by an MEF event was only one of the four considerations to assess the economic benefits of hosting the event, and economic benefits comprised 30% of the overall maximum mark of an application. The other considerations to assess the economic benefits of hosting the event were the event's ability to attract visitors and participants from Mainland and overseas, and to attract their length of stay in Hong Kong; the economic impact on related trades and services, such as hotel, airline, food and beverage and retail; and whether other local bodies, chambers or businesses could leverage on the event to create business opportunities, conventions, exhibitions or other related events;
- comparing to 2009 when Hong Kong's economy was hard hit by the global financial tsunami and the swine flu epidemic, less emphasis had been placed by the MEF Assessment Committee on the ability of an MEF event to create jobs as Hong Kong gradually recovered from the economic downturn in 2011; and
- job creation was never the major consideration in assessing applications for MEF funding, having regard to the fact that most of the jobs created were extremely short term and temporary in nature, with many lasting for one to a few days only.

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47. **Mr Philip YUNG Wai-hung, Commissioner for Tourism**, supplemented that although providing job opportunities was one of the justifications for setting up the MEF mentioned in all of the CEDB/TC's papers on the MEF for the meetings of the LegCo Panel on Economic Development and in the CEDB's funding proposals to the FC for setting up the MEF, the CEDB and the TC had stressed at the relevant meetings of the LegCo Panel on Economic Development and of the FC that the main reasons for setting up the MEF were to enhance Hong Kong's position as a popular traveller destination and events capital in Asia.

48. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** pointed out that the MEF Assessment Committee, the MEF Secretariat and himself as Controlling Officer of the MEF would consider a basket of factors before deciding whether, and if so, the level of sanction that should be imposed on the grantee for non-compliance with the terms and conditions of the funding agreement. Generally speaking, no sanction would be imposed on the grantee if the MEF event achieved the major objective of the MEF to raise Hong Kong's international profile and the failure, if any, to achieve a certain key performance indicator ("KPI") or some KPIs was not serious.

49. Responding to the Committee's enquiry about whether the CEDB/TC would consider removing the number of paid jobs to be created by an MEF event in assessing applications for MEF funding in view of the improved financial situation of Hong Kong, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** said that the MEF Assessment Committee, the MEF Secretariat and himself as Controlling Officer of the MEF would, in their impending review of the operation of the MEF, take into account the views/recommendations of the Committee as well as Audit before deciding on the way forward.

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

50. As revealed in paragraph 3.13 of the Audit Report, the MEF Secretariat did not follow comments/reservations made by the relevant B/Ds in assessing application for one case, i.e. Event G. Details are as follows:

- the MEF Secretariat did not adequately follow up the comments made by (i) the HAB, the Leisure and Cultural Services Department ("LCSD") and the TC that Event G was just merging and bundling together four local re-run productions which had been staged many times in the past,

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including 11 shows of one performance (Performance A) which had been staged in the LCSD venue one month before the organizers submitted their application; and (ii) also the comments made by the HAB/LCSD that the budgeted marketing expenses of \$2.5 million for Event G appeared high;

- in the application submitted on 30 July 2009, 10 shows of Performance A were included in Event G. It however transpired that in approving a \$2.5 million MEF funding to the organizers of Event G for promoting the event, which comprised a total of 45 shows of four local production performances over a period of three weeks in March and April 2010, both locally and overseas, the MEF Secretariat did not set any provisions in the funding agreement to govern the re-performance of the four MEF performances on dates in close proximity to the MEF event period, which might affect the attractiveness and attendance of the MEF shows. The MEF funding agreement was signed on 5 February 2010;
- according to the information published on the organizers' websites, after the submission of their application on 30 July 2009, six shows of Performance A had been staged in Hong Kong from 13 to 16 August 2009 (in the same venue as the MEF event), and four shows in Guangdong Province between August and September 2009; and
- Performance A was once again re-performed in Macau on the second day after the funding agreement was signed, and three more times in Canada two days after the last MEF show for Performance A was staged in Hong Kong. Although the organizers reported in their post-event evaluation report for Event G that \$0.91 million had been spent on promotion of Performance A locally and outside Hong Kong, the ticket income for Performance A under Event G was only \$0.87 million and the average number of audience for Performance A in the 10 MEF shows was not at all higher than that for the six shows staged by the organizers before the MEF event period in the same venue.

The timetable for the repeated shows of Performance A is in *Appendix 26*.

51. The Committee enquired about whether the MEF Assessment Committee and/or the MEF Secretariat were aware of the repeated shows of Performance A; and if so, the reasons for approving the application of Event G.

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52. **Deputy Commissioner for Tourism** responded as follows:

- the MEF Assessment Committee and the MEF Secretariat knew that Performance A had been performed many times locally and overseas in the past, as such information was mentioned by the organizers of Event G in their application;
- the reasons why the MEF Assessment Committee supported the application was that the organizers claimed that the four performances, which had been successfully performed locally and overseas, could increase the period of stay of non-local visitors in Hong Kong. The event could also develop a brand for local musical productions, showcase local cultural characteristics as well as building up an audience base and helping performers to acquire experience to complement the West Kowloon Cultural District;
- whilst the TC considered that the organizers should have informed the MEF Secretariat after they decided to re-perform Performance A in Macau and Canada on dates in close proximity to the MEF event period, the organizers did not do so; and
- due to the TC's lack of experience in administering the MEF during the early stage of the establishment of the MEF, the TC admitted that not stipulating specific condition in the funding agreement to govern the re-performance of the same performances under Event G was not desirable.

53. The Committee asked the Representative of the organizers of Event G why the organizers of Event G did not inform the TC of their plans to stage one show of Performance A in Macau one day after the signing of the funding agreement, and three shows of Performance A in Canada immediately after the last show of Performance A was held in Hong Kong under Event G.

54. **Mr KO Chi-sum, Representative of the organizers of Event G**, responded that:

- the organizers of Event G had not decided to stage one show of Performance A in Macau and three shows of Performance A in Canada when the MEF funding agreement was signed on 5 February 2010; and

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- the MEF funding agreement did not contain a term prohibiting organizers of Event G to stage the re-performance of the four MEF performances on dates in close proximity to the MEF event period.

55. At the request of the Committee, **Representative of the organizers of Event G** provided, after the public hearing on 12 May 2014, the exact dates on which the organizers of Event G decided to stage one show of Performance A in Macau on 6 February 2010 and three shows of Performance A in Canada on 23 April and 1 May 2010 (in *Appendix 27*).

56. On the effect of staging the re-performances of the four MEF performances on dates in close proximity to the MEF event period on the attractiveness and attendance of the MEF shows, **Representative of the organizers of Event G** made the following points:

- he did not consider that there had been negative effects, as the people who attended the shows under Event G and the people who attended the same shows not under Event G in Canada were basically two different groups of audiences. This was particularly clear if the dates on which the shows were held were in close proximity, as people from Canada wishing to attend the show in Hong Kong would choose to come to Hong Kong or vice versa;
- it was a common practice of the local performing arts community to, after staging a show in Hong Kong, immediately stage the same show overseas wherever possible;
- in the past, the HAB had specified in its funding agreements entered with the local performing arts groups a "blackout period" to govern the re-performance of the same performances funded by the HAB. The LCSD had also prohibited partners of its Venue Partnership Scheme from staging the same shows, which used the LCSD venues, in other non-LCSD venues on dates in close proximity to the dates which the same shows were staged at the LCSD venues. In recent years, both the HAB and the LCSD had not included such "blackout period" in their agreements with the local performing arts groups. Hence, inclusion of a "blackout period" in the funding agreements of projects funded by the Government had become a norm rather than the rule. In the light of this, the organizers of Event G did not see the need to inform the TC when they decided to stage Performance A in Macau and Canada after

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the signing of the agreement for MEF funding on 5 February 2010. If the TC was concerned that the organizers of Event G might stage re-performance of the same performances under Event G on dates in close proximity to the MEF event period, the TC should have included a "blackout period" in the funding agreement in the first place; and

- he disagreed that there was a conflict of interest for the organizers of Event G to re-perform Performance A on dates in close proximity to the MEF event period, as the organizer of Performance A was only remunerated to stage the shows in Macau and Canada. The organizer did not have any involvement in the sales and ticket income of the shows in Macau and Canada nor did the organizer take part in the promotional activities in the run-up to the shows. Moreover, as only some 100 tickets of the Macau show were made available for public sale by the operator, this should have minimal impact, if any, on the attractiveness and attendance of Event G. To his understanding, some Macau people who failed to obtain the tickets for Performance A in Macau did come to Hong Kong for the show.

57. The Committee enquired about whether the application for MEF funding by the organizers of Event G would not be approved, if the MEF Assessment Committee were aware that the organizers planned to stage Performance A repeatedly on dates in close proximity to the MEF event period.

58. **Deputy Commissioner for Tourism** responded that if the MEF Assessment Committee were aware that the organizers of Event G planned to stage Performance A repeatedly on dates in close proximity to the MEF event period, the MEF Secretariat would certainly request the organizers to provide more information for consideration by the MEF Assessment Committee in assessing their application.

59. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** supplemented that being the Controlling Officer of the MEF, he might or might not approve the funding for Event G if he was aware that the organizers planned to stage Performance A repeatedly on dates in close proximity to the MEF event period. Should he approve their application, specific terms might be stipulated in the funding agreement to ensure that the Fund would be used as intended to achieve the objectives of the Fund.

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60. The Committee further enquired about whether, in accordance with the funding agreement, the TC could seek indemnity from the organizers of Event G for not informing the MEF Assessment Committee and the MEF Secretariat of their plans to stage repeated shows of Performance A on dates in close proximity to the MEF event period.

61. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** replied in the negative, as the TC had already released to the organizers of Event G the remaining MEF approved funding. Financial sanctions had been imposed on the organizers for failing to achieve the pledged targets of participants and non-local visitors.

62. The Committee enquired why no action had been taken by the CEDB/TC against the organizers of Event G for not informing the MEF Secretariat of their plan to re-perform the MEF performances on dates in close proximity to the MEF event period, having regard to the following provisions in the MEF funding agreement signed with the organizers of Event G:

- Clause 9.1(b) stipulated that "the Grantee shall, during the continuation of this Agreement and for six (6) months thereafter immediately notify the Government in writing of all or any facts which may reasonably be considered to give rise to a situation where the financial, professional, commercial, personal or other interests of the Grantees or any of the Project Co-ordinator or Deputy Project Co-ordinator or any of the Grantees's Directors, employees, agents, contractors and sub-contractors, or any of their respective Associates or Associated Persons, conflict or compete, or may conflict or compete, with the Grantees's duties to the Government under this Agreement"; and
- Clause 9.4 stipulated that "the Grantees further agrees that, if so required by the Government, it shall take all such steps as are lawful and necessary to enforce such undertakings or to co-operate with the Government in their enforcement".

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63. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** responded that:

- the CEDB and the TC did not do so because the CEDB and the TC were not aware of the repeated performance of MEF performances staged on dates in close proximity to the MEF event period, until these repeated performances were discovered by Audit;
- there had been cases whereby the CEDB and the TC had laid down additional conditions in the MEF funding agreements to govern the re-performance of the MEF performances; and
- depending on the nature/type of individual cases, the TC would continue its prevailing practice to disallow the organizer to stage similar events in Hong Kong or in overseas within a reasonable period or require the organizer to set out clearly the incremental costs on the advertising, promotion or costumes solely arising from the staging of the MEF-supported event. The MEF Assessment Committee would be invited to take note of this and its potential impact on the attractiveness of an event during assessment.

D. Monitoring and evaluation of events

64. Responding to the Committee's enquiry about the lessons that the CEDB/TC had learnt from the Hong Kong Harbour Fest to ensure the proper use of the MEF funding, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** set out the following control and monitoring measures that had been put in place:

- the MEF Assessment Committee, with the support of the MEF Secretariat, assessed applications for MEF funding in accordance with the established procedures, guidelines and criteria;
- to give a clear signal to event organizers that it would be their own responsibility to secure sufficient funding for the events that they could not solely rely on public funding, the Government's total contribution to an MEF event (including the MEF funding) should be capped at 50% of the total events' costs;
- during the implementation stage, there would be close contact between the organizer and the MEF Secretariat throughout the planning and

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implementation of the whole event. Members of the MEF Assessment Committee and the MEF Secretariat staff would pay site visits⁵ and participate in working meetings of the event, observe the attendance and collect feedback from participants on site, and record such observations properly. Staff and equipment deployed by the organizer would be inspected on site by the MEF Secretariat staff. Major changes in the event's plan were subject to the endorsement of the MEF Assessment Committee. As one of the financial control measures, in general, only 50% of the approved funds was provided to the successful application upon the coming into force of the funding agreement; and

- after the completion of the event, the organizer was required to submit a post-event evaluation report, a publicity report, a survey report (collectively termed "post-event reports") and the audited accounts of the event within a specified time period⁶. The Controlling Officer, on the advice of the MEF Assessment Committee, reserved the right to impose appropriate sanctions on the organizer if its performance in organizing the event was not satisfactory or if it failed to achieve the pledged targets and deliverables of the supported event, including to terminate the funding agreement, reduce the level of funding, not to disburse the outstanding fund or suspend the organizer from future MEF application, etc.

Events C1, C2, C3 and C4

65. According to paragraph 4.14(c) of the Audit Report, the majority of the services, including the recruitment of performers, for Events C1, C2 and C3 were procured from two associates of the organizer. However, there were no quotations, invoices, staff recruitment and payroll records with performers' acknowledgement of receipt available to support the recruitments of performers for these events. The two associates together had been paid \$1.5 million, \$1 million and \$1.4 million, representing 48%, 36% and 44% of the total expenditures incurred for the three

5 According to the TC, as an integral part of the monitoring work over MEF-supported events, the MEF Secretariat staff typically arranges staff members to conduct on-site inspection to the venue(s) of every event since the inception of the MEF scheme in 2009. A standard form (in *Appendix 28*) has been in use since January 2011 to facilitate the recording of on-site observation findings by the MEF Secretariat staff and the MEF Assessment Committee members.

6 According to the TC, the deadline for submission of post-event reports and audited accounts under the original MEF is within three months after the completion of the event. Under the modified MEF, such deadline was changed to within four months after the completion of the event.

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events respectively. Noting from the post-event evaluation reports of Events C1, C2 and C3 that expenditures on performers for the events were only supported by self-declarations by the two associated service providers, the Committee asked why the MEF Secretariat did not raise any queries on such self-declarations.

66. **Deputy Commissioner for Tourism** responded that:

- the MEF Secretariat did not solely rely on self-declarations by the two associated service providers to assess whether the expenditures on performers were reasonable. The MEF Secretariat also made reference to the findings of the on-site inspection to the events conducted by MEF Secretariat staff, the number of manpower deployed for the events reported by the organizer, and the applications submitted by the organizer to the Guinness World Records to attempt or break a world record, say, for the largest gathering of lion dance⁷. In addition, the MEF Secretariat counterchecked the consistency between the post-event evaluation reports and the final audited accounts of the events submitted by the organizer of Events C1, C2 and C3; and
- although the MEF funding was usually granted to finance specific expenditure items, monitoring of the MEF-supported event by the MEF Secretariat was on the event's total cost to ensure that the Fund was used in a proper manner. Generally speaking, more random inspection was conducted on those expenditure items which fell within the MEF funding and less on those expenditure items which were not financed by the MEF funding. The reason why less rigorous random inspection was made on expenditure items not financed by the MEF funding was that the MEF Secretariat relied to a large extent on the audited accounts duly audited, dated, signed and certified as being accurate and complete by a CPA. The independent CPA was expected to conduct appropriate checks on the supporting documents. Also, the independent CPA was required to express his opinion on whether the organizer and the Project Account had complied with the terms and conditions of the funding agreement, and included an assurance that funds were spent in accordance with the terms and conditions of the funding agreement.

⁷ According to the organizer of Events C1, C2, C3 and C4, an independent CPA was engaged for each event to count the number of people participated in the Guinness record-breaking performance.

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67. Responding to the Committee's enquiry as to why there were no quotations, invoices, staff recruitment and payroll records with performers' acknowledgement of receipt available to support the recruitments of performers for Events C1, C2 and C3, **Hon CHAN Kam-lam, Convenor of the organizer of Events C1, C2, C3 and C4**, explained that:

- the organizer of Events C1, C2 and C3 did not have staff recruitment and payroll records with performers' acknowledgement of receipt, as the organizer did not directly recruit the performers for the events;
- as the organizer had procured the services of the two associates of the organizer to recruit performers for the events, the organizer therefore did not see the need to know which performer recruited was paid or not paid, and if paid, how much was paid. Payments to the two associated service providers were based on the actual numbers of, say, lions and dragons, that had participated in the events; and
- he had turned over to the MEF Secretariat all the information relating to recruitment of performers that the two associated service providers had provided to him.

68. As MEF funding support for an event could be up to 50% of the total event's cost, the Committee queried whether the organizer of Events C1, C2 and C3 had overstated the target number of paid jobs to be created by these events and/or overstated the expenditures on performers for these events in order to obtain more funding support from the MEF.

69. **Convenor of the organizer of Events C1, C2, C3 and C4** pointed out that:

- there was no incentive for the organizer of Events C1, C2 and C3 to overstate the target number of paid jobs to be created by these events and/or overstate the expenditures on performers for these events in order to obtain more funding support from the MEF, as the MEF funding only financed two specific expenditure items of Events C1, C2 and C3, namely, to enhance publicity of the events, both locally and overseas; and to enrich the quality and content of the events; and
- the main objective of organizing Events C1, C2, C3 as well as C4 was to showcase Chinese cultural characteristics so as to raise the profile of

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Hong Kong internationally. Job creation was never the major consideration for organizing these events.

70. **Deputy Commissioner for Tourism** supplemented that:

- the MEF Assessment Committee must satisfy that the costs budgets proposed in the application for MEF funding were reasonable, before recommending the application for MEF funding support; and
- although 50% of the approved MEF funding would normally be released to the successful applicant upon the coming into force of the funding agreement, disbursement of the remaining 50% of the approved MEF funding would only be made if the MEF Assessment Committee was satisfied with the post-event reports and the audited accounts of the event submitted by the successful applicant. The MEF Secretariat would scrutinize the contents of and countercheck the consistency between the final audited accounts and the post-event evaluation reports, as well as invite comments from relevant B/Ds. The Secretariat might also request the successful applicant to provide supporting documents, proofs and payment receipts relating to the event, including those expenditures not financed by the MEF, and to give reasons to account for any deviation exceeding 10% between the budget and the actual amounts for each income or expenditure item. In other words, the total contribution of the MEF to an event might not be the original approved amount indicated in the funding agreement even if the grantee was successful in achieving the pre-determined deliverables and targets and had not breached any terms and conditions as stipulated in the funding agreement.

71. The Committee noted that allowances for the dancing teams for Event C4 was \$732,340, which was drastically lower than that for Events C1, C2 and C3 at \$1.5 million, \$1 million and \$1.4 million respectively. The Committee queried whether this had something to do with the wide public concern over the use of MEF funding following the publication of the Audit Report on the operation of the MEF in April 2014.

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72. **Convenor of the organizer of Events C1, C2, C3 and C4** explained that:

- the contents of Events C1, C2, C3 and C4 were different. For example, Event C1 was mainly a gathering of 1 111 lions, whereas that of Event C2 was mainly a gathering of 88 dragons; and
- the expenditure on performers for Event C4 was much lower than that for Events C1, C2 and C3 because the actual number of performers employed for Event C4 was 1 376, as opposed to the target number of 3 101, which was attributed by the following:
 - (a) the number of lions participating in the event was reduced from 500 to 300, thereby reducing the need of hiring some 600 to 700 performers;
 - (b) the actual number of Happy Buddhas was 936 as opposed to the target number of 1 000;
 - (c) of the 936 Happy Buddha performers, only 545 were paid performers; and
 - (d) more students had turned up to participate in the event than expected, thereby obviating the need to hire several hundred paid performers.

73. As also revealed in paragraph 4.14(c) of the Audit Report, the organizer of Events C1, C2 and C3 had neither made any declaration of conflicts nor sought permissions from the TC for procurement from associated service providers in accordance with the funding agreements. The Committee also noted from the MEF funding agreement entered with the Convenor of the organizer of Event C4 that the organizer of Event C4 had also neither made any declaration of conflicts nor sought permissions from the TC for procurement from associated service providers in accordance with the funding agreement. In the light of this, the Committee queried whether the prices charged by the associated service providers for Events C1, C2, C3 and C4 were above the then prevailing market prices.

74. **Deputy Commissioner for Tourism** responded that:

- the MEF Assessment Committee knew during the application stage of Events C1, C2, and C3 that the organizer of these events intended to

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procure the services of the two associates of the organizer for forming the dancing teams for the events. Such arrangements were mentioned in the application forms submitted by the organizer and at the meetings with the MEF Assessment Committee members to present its proposed events;

- the main reason why the MEF Assessment Committee did not object to the organizer for procuring the services of the two associates of the organizer to form the dancing teams for the events was that the organizer assured the MEF Assessment Committee that the two associates of the organizer, who were venerable figures in the lion and dragon dance market, had the ability to line up large scale lion and dragon dances for the one-day events which fell on a public holiday;
- to assess whether the budgeted costs for staging the lion and dragon dances for Events C1, C2, C3 and C4 were reasonable, the MEF Secretariat had checked with those B/Ds and the HKTB which staged lion and dragon dances from time to time on the prices they had paid for such performances; and
- the CEDB/TC agreed with Audit's observation that the work in the area of requiring proper declaration of interests by applicants was insufficient. Hence, arrangement would be made to insert a specific entry in the relevant documents to mandate the declaration of potential and possible conflict of interests by applicants.

75. **Convenor of the organizer of Events C1, C2, C3 and C4** pointed out that money paying to the associated service providers for lining up dancing teams for Events C1, C2, C3 and C4 was 30% to 40% below the then prevailing market prices for staging similar performances.

76. The Committee enquired about the reasons for the following phenomenon:

- no financial sanction was imposed by the MEF Assessment Committee on the organizer of Events C1, C2 and C3, whereas a 7% financial sanction was imposed on the organizer of Event C4 on the grounds that the organizer failed to, amongst others, meet the pre-determined target on creation of paid jobs and the target number of Happy Buddhas participating in the Guinness record-breaking performance as stipulated in the funding agreement;

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- no performers list was contained in the post-event evaluation reports of Events C1, C2 and C3, whereas such a list was contained in the post-event evaluation report of Event C4; and
- no non-compliance with the terms and conditions of the MEF funding agreement was mentioned in the independent CPA's reports on Events C1, C2 and C3, whereas it was mentioned in the independent CPA's report on Event C4 that the bank accounts used by the organizer contained brought forward bank balance of \$10,781 that was not related to Event C4 and there was no evidence that the organizer had sought permission from the Government in procuring services from the associated service providers.

77. On the imposition of financial sanctions or otherwise on the organizer of Events C1, C2, C3 and C4, **Deputy Commissioner for Tourism** responded that:

- the MEF Secretariat had always endeavoured to closely monitor the proper use of the MEF funding by the grantees. Following the publication of the Audit Report on the operation of the MEF, an additional staff with accounting background was deployed within the TC to assist the MEF Secretariat in the scrutiny of the reports submitted by the organizer of Event C4 after the completion of the event. With the assistance of this staff member with accounting background, a sum of \$40,755 was excluded from both the total income and expenditure of the event; and
- resources permitting, the TC would recruit staff member with accounting/audit background/knowledge to serve the MEF Secretariat with a view to enhancing the effectiveness of its monitoring work.

78. On why the performers list was only provided in the post-event evaluation report of Event C4, **Convenor of the organizer of Events C1, C2, C3 and C4** explained that:

- the performers list for Event C4 was provided to him by the two associated service providers;
- he did not know why the same two associated service providers did not provide the performers lists for Events C1, C2 and C3 to him in the past; and

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- he did not know the contents of the independent CPA's report on Event C4 until the report was made available to him on 8 May 2014. Whilst he respected the opinions made in the independent CPA's report regarding the event's accounts and the procurement of services from associated service providers which were factually true, he could not concur with these opinions for the following reasons. The balances in the event's accounts totalling \$10,781 were surplus accumulated from past MEF events which were permitted under the funding agreement⁸, and the related party transaction was permitted by the MEF Assessment Committee, albeit such permission was not clearly stated in the relevant documents of the MEF.

79. Although the deadline for the organizer of Event C4 to submit the post-event reports and the audited accounts of Event C4 to the MEF Secretariat was 30 April 2014, the actual submission dates of the post-event reports and the audited accounts of Event C4 were 7 and 8 May 2014 respectively. The Committee enquired about whether the organizer of Event C4 had sought prior approval from the MEF Secretariat for extension of submission deadline; and if so, the reasons given by the organizer.

80. **Deputy Commissioner for Tourism** responded that:

- the Convenor of organizer of Event C4 issued an email to the MEF Secretariat on 25 April 2014 seeking the latter's agreement to extend the date of submitting the post-event reports and the audited accounts from 30 April 2014 to 7 May 2014. The reason given by the organizer was that additional time was required for the audit work. The MEF Secretariat replied to the organizer on 28 April 2014;

8 Under Clause 14.3 of the MEF funding agreement, when the grantee submits the final audited accounts, the grantee may submit an application to the MEF Assessment Committee for approval for retaining the operating surplus in the project account for the sole purpose of organizing the same event in the following year in Hong Kong subject to a series of conditions.

Further, under Clause 14.4(a) of the MEF funding agreement, where approval is granted to the application under Clause 14.3, the grantee shall warrant and undertake in writing to the Government that it shall immediately return the surplus, plus all interest generated in the project account, to the Government if the grantee discontinues with organizing the new event in the following year; or the grantee does not apply for the MEF for the event or decline to receive any fund from the MEF for organizing the event; or the grantee does not apply to use the surplus or declines to use the surplus to organize the new event; or the surplus has been left idle in the project account for more than 24 months, whichever is earlier.

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- on 7 May 2014, the Convenor of organizer of Event C4 issued another email to the MEF Secretariat seeking further extension of the submission deadline of the post-event reports and the audited accounts from 7 May 2014 to 17 May 2014. Subsequently to this email, the organizer of Event C4 submitted the post-event reports to the MEF Secretariat on 7 May 2014. It also submitted the audited accounts of the event on 8 May 2014; and
- the MEF Secretariat typically reminded the organizers to observe the requirement and ensure the timely submission of the post-event reports and the audited accounts within the prescribed period after the completion of the event. In cases where the organizers could demonstrate a genuine need for a deferral of the submission deadline, the MEF Secretariat would give agreement to such requests for deferral. Reasons for deferral accepted in the past included the fact that the independent CPA required more time to complete the final audited accounts, or that inputs from the organizers' overseas counterparts were pending.

81. At the request of the Committee, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** provided, after the public hearing on 7 June 2014, details of the MEF-supported events seeking extension of deadline for submitting the post-event reports and the audited accounts (in *Appendix 29*).

82. Noting that the dates on which the post-event reports and the audited accounts of Event C3 were submitted to the MEF Secretariat were 27 February 2013 and 22 February 2013 respectively, the Committee enquired about the reasons for the much longer time taken for the submission of the post-event reports and the audited accounts of Event C4.

83. **Convenor of the organizer of Events C1, C2, C3 and C4** responded that:

- the reason for the much longer time taken to submit the post-event reports and the audited accounts of Event C4 to the MEF Secretariat was because he did not receive all supporting documents relating to the income and expenditures of the event until late April 2014;
- as regards the reason for seeking further extension of the submission deadline of the post-event reports and the audited accounts of Event C4

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from 7 May 2014 to 17 May 2014, this was because additional time was needed for the audit work given that there were only two clear working days between 1 and 7 May 2014; and

- there was no question of the organizer delaying the submission of the post-event reports and the audited accounts of Event C4 in order to allow more time for the organizer to fudge the information to be provided in the reports because of the findings made by Audit, as the organizer did not know that Audit staff attended Event C4 as observers until the publication of the Audit Report and the supporting documents relating to the income and expenditures of the Event C4 were provided to the independent CPA upon receipt since the end of March 2014.

84. According to paragraph 4.14(h) of the Audit Report, for one event (Event C2), the organizer received a sponsorship of \$0.8 million from one sponsor. Because the event had an unspent balance of \$0.28 million, the organizer refunded \$0.28 million to the sponsor. As the organizer should have refunded the unspent event balance of \$0.28 million to the Government under the funding agreement, the Committee enquired about the reason why this was not done.

85. **Deputy Commissioner for Tourism** responded that:

- in March 2014, the organizer explained to the TC that the sponsor had committed to use its sponsorship to make up for any deficit of the event and, with an unspent event balance of \$0.28 million, it refunded the amount to the sponsor; and
- the TC admitted that the above refund of an unspent balance to sponsor, instead of the Government, was not desirable. In future, the TC would state explicitly in the funding agreement that the organizer must notify the TC in writing and seek its prior consent, should there be any special arrangement for returning sponsorships to commercial sponsors.

86. At the request of the Committee, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** provided, after the public hearing on 7 June 2014, the breakdown of the expenditure items which fell within the scope of expenditure that may be covered by the MEF funding for Events C1, C2, C3 and C4 (in *Appendix 30*).

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Events E1 and E2

87. The Committee noted from paragraph 4.9 of the Audit Report that the agent (a company) employed by the organizer of Events E1 and E2⁹ was related to the organizer in that the shareholders of the agent were also ex-officio members of the organizer's executive committee. Services of \$2.9 million and \$2.7 million had been provided by the agent in the two events, representing 12% of the total expenditures incurred. However, the organizer had neither made any declarations of the relationship nor sought the Government's permissions for procurements from the related agent.

88. **Deputy Commissioner for Tourism** explained that:

- the MEF Assessment Committee and the MEF Secretariat knew from the application forms of the organizer of Events E1 and E2 and from the organizer's presentations on their proposed events at the meetings of the MEF Assessment Committee that (a) the agent would be employed by the organizer to organize the proposed events; (b) the agent had been providing services to the organizer at a fee prior to the latter's application for organizing Event E1; (c) the reason why the shareholders of the agent were also ex-officio members of the organizer's executive committee was because the agent was assisting the organizer in organizing tennis tournaments; and (d) the two shareholders of the agent who were also ex-officio members of the organizer's executive committee did not have the right to vote at meetings of the executive committee;
- the reason why the MEF Assessment Committee did not object to the organizer employing the agent to organize Events E1 and E2 was because from the documents provided by the organizer the agent had a track record of staging successful tennis tournaments; and
- the CEDB/TC agreed with the audit recommendation that applicants/organizers of MEF-funded events should be required to disclose in their applications and post-event reports their management teams and the related organizations that might take/had taken an active part in organizing the events. On this, the TC would insert a specific entry in the relevant documents to mandate the declaration of potential and possible conflict of interest by applicants/organizers.

⁹ The organizer of Events E1 and E2 was a limited company which was dissolved on 28 January 2014.

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89. As the agent was a profit-making company and would receive payments from the organizer of Events E1 and E2 for organizing the events, the Committee considered that the CEDB/TC should have required the organizer of Events E1 and E2 to operate a proper procurement/tendering system for the events with sufficient checks and balances as stipulated in the funding agreement.

90. The Committee noted from paragraph 2.37 of the Audit Report that the MEF funding agreement of Event E1 had not defined the specific use of the MEF funding. Responding to the Committee's enquiry as to why this was the case, **Deputy Commissioner for Tourism** explained that this was due to the lack of experience of the MEF Secretariat during the initial stage of the MEF's operation. However, the organizer of Event E1 well understood that the MEF funding was granted to finance the organizer to enhance its ability to line up more players so as to increase the attractiveness of the event; and to enhance publicity of the event, both locally and overseas.

91. The Committee enquired as to why the MEF Secretariat did not raise any queries on the organizer of Event E1 making an unbudgeted bonus payment of \$0.2 million to the agent.

92. **Deputy Commissioner for Tourism** responded that:

- the organizer of Event E1 explained to the TC that the making of a bonus payment to the agent was in line with the past practice that if the agent had staged successful tennis tournaments in the past year, the agent would be awarded a bonus payment; and
- as the actual amount of MEF funding provided to the organizer of Event E1 was \$7,883,719, as opposed to the original approved funding of \$9 million, because the agent was able to generate more income than the budget income through sponsorship and ticket sales, the TC therefore did not object to the organizer making an unbudgeted bonus payment of \$0.2 million to the agent.

Event J

93. According to paragraph 4.19(a) of the Audit Report, under the funding agreement which was executed in January 2013, the organizer undertook that no

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similar matches would be held by the organizer/team in the Southern China and "nearby South East Asian countries" during the 2013 tour. However, the team had held a match in Thailand (which is in South East Asia) during its 2013 tour. Even though the MEF Secretariat had been informed of the match in Thailand, yet because the funding agreement had not defined clearly the term "nearby South East Asian countries", the funding condition of requiring the organizer/team not to hold similar matches in "nearby" places was difficult to enforce. The Committee enquired about the rationale for setting down such term in the funding agreement of Event J.

94. **Deputy Commissioner for Tourism** responded that:

- to expect the team of such high international stature to only come to Hong Kong to hold matches was not realistic; and
- in order not to undermine the attractiveness and attendance of Event J, a condition was specified in the funding agreement to prohibit the organizer/team for holding matches in "nearby South East Asian countries" which should be taken to mean places such as Macau, Shenzhen and Guangzhou, which were within one to two hours travelling time to Hong Kong.

Event G

95. As revealed in paragraph 4.14(a)(i)-(ii) of the Audit Report, almost all expenditures on overseas TV advertisements of \$240,000 were spent on TV promotion in Canada and solely for Performance A, instead of all four MEF performances. Moreover, the organizers of Event G made no reference to any of the TV advertisements in Canada in their publicity report submitted to the MEF Secretariat. The Committee was concerned that the money might have been spent on promoting the three shows of Performance A staged in Canada two days after the MEF shows in Hong Kong.

96. **Representative of organizers of Event G** responded that there was no question of the organizers of Event G charging the expenditures on TV promotion in Canada on the three shows of Performance A staged in Canada two days after the MEF shows in Hong Kong to the MEF funding. He further said that:

- the organizers of Event G were invited by an organization to stage the three shows of Performance A in Canada two days after the MEF shows

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in Hong Kong. The three shows staged in Canada were for charity and the organizers of Event G only received fees for producing the shows. The organizers of Event G were not involved in the promotion of the three shows in Canada nor did they have a share in the income of the shows;

- the main reason for allocating most of the overseas advertising budget of Event G on promoting Performance A in Canada was because the organizers of Event G considered that Performance A best suit the taste of Canadian Chinese people visiting Hong Kong. In fact, survey results revealed that Performance A had the highest numbers of overseas audience and attendance; and
- the organizers of Event G had provided the MEF Secretariat with the TV advertisements they planned to air in Canada and the contents of these TV advertisements were all on promoting Performance A of Event G.

97. Responding to the Committee's enquiry as to when the organizers of Event G decided to allocate most of the overseas advertising budget of Event G on promoting Performance A in Canada, **Representative of organizers of Event G** advised that this should be between after the signing of the funding agreement on 5 February 2010 and before the organizers decided to stage the three shows of Performance A in Canada on 8 April 2010. **Representative of organizers of Event G** surmised that the inviting organization might have decided to invite the organizers of Event G to stage three shows of Performance A in Canada on 23 April and 1 May 2010 after watching the TV advertisements in Canada on promotion of Performance A under the MEF event.

98. The Committee noted from paragraph 4.14(a)(iii) of the Audit Report that of the \$240,000 expenditures spent on overseas TV advertisements, a payment of some \$92,000 was not properly supported by any official invoice. The receipt in support of the payment was not an official one because it did not bear the customer name and there was no description of the service provided (such as the nature, duration and period of the advertisements). There was no authorized signature and no official company chop. Another payment of \$32,970 for promotion in North America for all four performances was not supported by invoice or official receipt, but only by a bank exchange memo for purchase of Canadian dollars. The Committee asked why the MEF Secretariat had paid the organizers for these two expenditure items which were not supported by documents, proofs and/or payment receipts.

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99. **Deputy Commissioner for Tourism** admitted that as Event G was one of the first batch of applications for MEF funding, verification of supporting documents was not conducted thoroughly enough by the MEF Secretariat staff due to lack of experience. Nevertheless, the MEF Secretariat had randomly inspected the documents, proofs and payment receipts relating to the event and had asked the organizers to provide explanation should there be any missing parts or irregularities. The fact that nothing was documented in the files of the MEF Secretariat in respect of the two expenditures referred to in paragraph 4.14(a)(iii) of the Audit Report showed that the MEF Secretariat was satisfied with the two expenditure items.

100. **Representative of organizers of Event G** advised that after the completion of Event G, the organizers had provided the MEF Secretariat with all supporting documents, proofs and payment receipts relating to the two expenditure items referred to in paragraph 4.14(a)(iii) of the Audit Report. The organizers of Event G might no longer have these documents, having regard to the fact that the MEF Secretariat had already settled the account with them back in 2011.

101. The Committee pointed out that under Clause 12(1) of the MEF funding agreement, the grantee must maintain all relevant records of the MEF-supported event, including separate and complete books of accounts, a register of equipment procured and all relevant receipts, for inspection and checking by the MEF Assessment Committee or the MEF Secretariat as and when required. Such records must be kept for a period of seven years following completion of the event.

102. After the public hearing held on 7 June 2014, **Representative of organizers of Event G** informed the Committee (in *Appendix 31*) that:

- the organizers of Event G could not provide any more supporting documents relating to the payment of some \$92,000 and another payment of \$32,970 for overseas TV advertisements referred to in paragraph 4.14(a)(iii) of the Audit Report; and
- the organizations which the organizers of Event G used to place TV advertisements for Performance A under the MEF event (paragraph 4.14(a)(iii) of the Audit Report refers) did not retain the relevant transaction records.

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Disbursement of funds not in accordance with pre-set milestones

103. In June 2009, shortly after the inception of the MEF, the MEF Assessment Committee endorsed that disbursement of funds would be made by phases "in accordance with business plan, budget and cash flow requirement of the successful event, subject to fulfilment of pre-set and clearly defined milestones/targets acceptable to the Assessment Committee." However, according to paragraph 4.26 of the Audit Report, instead of disbursing funds in accordance with the pre-set milestones of the events, payments were made to the organizers in all 22 completed MEF events based on the same payment schedule, i.e. 50% upon the execution of the funding agreements and the remaining 50% after the successful completion of the events and the submission of post-event reports and audited accounts to the satisfaction of the MEF Assessment Committee and the Controlling Officer.

104. **Deputy Commissioner for Tourism** responded that:

- the reason 50% of the approved MEF was released to 22 MEF events upon the coming into force of their funding agreements was because the funding agreements were executed very close before the event dates. Because many of these organizers had relatively less experience than professional and commercial event organizers in organizing large scale events, long time was often taken to finalize their operation plans and event budgets which formed part of the funding agreements;
- following a brainstorming session held with the MEF Assessment Committee in March 2014 to look into ways to improve the Tier-2 scheme, the TC was considering starting each round of applications earlier as well as adding another round of invitation for applications per year. Such arrangements would allow interested local non-profit-making organizations to come to apply for the Fund way ahead of their event dates, and this in turn would enable the disbursement of the Fund by phases, subject to the fulfilment of pre-set milestones; and
- without waiting for the funding agreements to be finalized, the MEF Secretariat had taken steps in a proactive manner to monitor the implementation of the events and remind the organizers to observe the terms and conditions of the yet-to-be executed agreements.

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E. Way forward

105. According to paragraph 2.12 of the Audit Report, no Tier 1 events have been held as of March 2014 since the modified MEF was launched in May 2012. The Committee asked why this was the case.

106. **Deputy Commissioner for Tourism** explained that:

- as the CEDB informed the FC in April 2012, to take forward the new Tier I scheme, an independent consultant would be engaged to conduct a comprehensive survey to identify a list of potential Tier I events to be introduced to Hong Kong. After consideration by the MEF Assessment Committee and obtaining the approval-in-principle approval from the Controlling Officer, i.e. the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), the TC would approach the relevant owners of the identified events according to the agreed priority to explore whether they were interested in bringing these events to Hong Kong;
- a consultant was appointed in September 2012. The consultant's report was accepted by the MEF Assessment Committee in May 2013. Given that the MEF funding was limited, and was designated for use of both Tier 1 and Tier 2 events, the MEF Assessment Committee considered it prudent to adopt a step-by-step approach to take forward the Tier 1 scheme, and advised the TC to concentrate efforts on one or two mega events with real potential to be introduced to Hong Kong. In accordance with the MEF Assessment Committee's advice, the TC had been discussing with the organizers of two potential Tier 1 events the possibility of introducing such events to Hong Kong. These discussions were ongoing and the TC would continue to follow up this matter in a proactive matter; and
- also as the CEDB informed the FC in April 2012, given that Tier 1 events would entail substantial amounts of public funds and would involve commercial event organizers or professional sports associations established outside Hong Kong, the TC would need to develop a more versatile monitoring and control mechanism for Tier 1 events. Based on the existing monitoring mechanism for Tier 2 events, the TC had recently worked out a more versatile monitoring and control mechanism for Tier 1 events. The ICAC had been consulted on the enhanced mechanism for Tier 1 events from the corruption prevention angle.

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The TC was presently studying the replies and comments from the ICAC. As the Government would be entitled to sharing profits of the supported event in a manner commensurate with the MEF's sharing of funding contribution in relation to other financiers towards the event on a pro rata basis, the TC was presently working out the additional requirements that should be included in the relevant documents for Tier 1 events.

107. According to paragraph 5.19(a)(i) of the Audit Report, Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) agreed that there was a need to improve the governance of the MEF Assessment Committee. When considering appointment/re-appointment of members of the MEF Assessment Committee in future, the TC would, bearing in mind that the continuity of the MEF Assessment Committee was important in ensuring the consistency of assessment, consider introducing new blood to the Assessment Committee.

108. On 12 June 2014, the Government announced an appointment and re-appointments to the MEF Assessment Committee for a term of two years with effect from 15 June 2014. With the exception of one non-official member who was newly appointed, the Chairman and six other non-official members of the MEF Assessment Committee were re-appointed. In view of the various deficiencies on the monitoring and evaluation of MEF events identified by Audit and that only six of the 24 MEF events approved as of February 2014 were brand new events with the rest being ongoing and/or repeated events, the Committee enquired about the reason for re-appointing all existing non-official members and only introducing one new member to the MEF Assessment Committee.

109. **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** responded that:

- all six re-appointed non-official members were experts from the tourism, culture, arts, sports, event management and entertainment sectors who had provided the CEDB/TC with valuable advices on bringing in more signature mega events to Hong Kong. Besides, the CEDB/TC considered it important to ensure continuity and retain experience in the assessment of applications for MEF funding. To enhance the assessment and supervision work of the MEF Assessment Committee, an additional non-official member who had rich knowledge of the

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tourism sector as well as profound professional accounting knowledge was appointed to the MEF Assessment Committee; and

- as not all local non-profit-making organizations had the experience and the capability to organize large scale events, the CEDB/TC considered it appropriate to provide MEF funding support to those local non-profit-making organizations to host events which had the potential to become mega events in Hong Kong.

110. As Hon Jeffrey LAM Kin-fung was re-appointed as the Chairman of the MEF Assessment Committee for a third term, the Committee enquired Mr LAM about whether he considered the monitoring of Events C1, C2, C3, C4, E1, E2 and G satisfactory and what measures he would suggest to the Government on addressing the deficiencies on the operation of the MEF identified by Audit.

111. **Chairman of the MEF Assessment Committee** responded that:

- whilst the monitoring of Events C1, C2, C3, C4, E1, E2 and G was less than desirable, these events had been staged in line with the aim of the MEF; and
- the MEF Assessment Committee would shortly meet to examine ways on enhancing the existing control and monitoring mechanism of the Fund. In particular, he had recently raised with the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) the need for the TC to step up its checking and controls over the operation of the MEF events. Hitherto, the Secretary for Commerce and Economic Development had appointed a new member who had rich knowledge of the tourism sector as well as profound professional accounting knowledge to the MEF Assessment Committee and the TC would add new staff with accounting knowledge to the MEF Secretariat.

112. At the request of the Committee, **Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism)** provided, after the public hearing on 17 June 2014, a list of measures/actions that would be taken by the TC to enhance the control and monitoring mechanism of the MEF (in *Appendix 32*).

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F. Conclusions and recommendations

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|-------------------------|
| Overall comments |
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113. The Committee:

- expresses grave dismay and finds it inexcusable that:
 - (a) the failure to ensure the compliance of the terms and conditions in the funding agreements of the Mega Events Fund ("MEF") by the Commerce and Economic Development Bureau ("CEDB") and the Tourism Commission ("TC") of the CEDB in areas, such as procurement of equipment and services; return of surpluses to the Government; seeking the prior written consent of the MEF Assessment Committee and the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) if there is any material change to any information provided in the funding agreement; and keeping of books and records, had resulted in a number of irregularities and suspected irregularities identified by the Audit Commission ("Audit") in the MEF-supported events;
 - (b) the failure to carry out the avowed intention of the CEDB to inject new blood into the MEF Assessment Committee, i.e. the chairman has taken up the office since the inception of the MEF in 2009 and only one of the seven non-official members is a new member (appointed on 12 June 2014), might not be conducive to the identification of new events, having regard to the facts that only six of the 24 approved events held thus far were brand new events and only one new event had been approved in the recent five rounds of applications (since mid-2011) and no Tier 1 events have been held even though the two-tier MEF has been implemented since May 2012; and
 - (c) the MEF Secretariat, with only six staff all without accounting/auditing background and all having other duties, failed to provide sufficient support to the MEF Assessment Committee for carrying out its remit in an effective manner;

Monitoring and evaluation of events

- finds it unacceptable and inexcusable that the CEDB failed to draw sufficient lessons from the experience from the Hong Kong Harbour

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Fest in that the TC had not taken adequate safeguard measures to ensure the proper use of the MEF, as evidenced by the following shortfalls:

Monitoring of event implementation

- (a) failure to require organizers of Events C1, C2, C3, C4 and G to provide full supporting documents for all event expenditure items, as a result of which a number of irregularities and suspected irregularities in these events had been identified by Audit;
- (b) failure to require organizers of Events C1, C2, C3, C4 and E1 to disclose in their applications and post-event evaluation reports their management teams and related organizations that might take and had taken an active part in staging the events, as a result of which abuses had occurred in these events in that payments were made by the organizer of Events C1, C2, C3 and C4 to its associated service providers based on the latter's self-declarations; and an unbudgeted gratuitous bonus payment of \$200,000 was made to the agent employed by the organizer of Event E1;
- (c) although the related party transactions in Events C1, C2, C3, C4, E1 and E2 were made known to the MEF Assessment Committee and the MEF Secretariat by the organizers of these events, neither did the MEF Secretariat document the reasons/justifications for exempting the organizers of these events from carrying out the tendering procedures for procuring services, including staff recruitments, as stipulated in the funding agreements or for waiving the organizers from complying with the relevant clauses in the funding agreements; nor did it conduct additional checks on the organizers' procurement and recruitments; and
- (d) although it is provided in the funding agreements that the organizers shall establish a two-tier approval system for the recruitment of key personnel/staff and the award of major goods, services and equipment contracts in procurement/tendering exercises conducted for the events, no adequate measures had been taken to ensure such implementation by the organizers;

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Evaluation of events

- (e) achievements reported by organizers were not always adequately verified in that:
 - (i) the MEF Secretariat did not conduct random verification on the numbers of jobs created by the events during the on-site inspections and did not conduct adequate check on the organizers' recruitment and payroll records; and
 - (ii) organizers were not required to inform or agree with the MEF Secretariat their methods in counting participants in the events, and the MEF Secretariat seldom verified or raised queries on the counting methods or the results;
- (f) failure to ascertain the underlying reasons why organizers could not develop special tourist packages required in their funding agreements; and

Disbursement of funds not in accordance with pre-set milestones

- (g) although disbursement of MEF funding should be subject to the fulfilment by the organizers of the pre-set milestones, payments were made to the organizers in all 22 completed MEF events based on the same payment schedule, i.e. 50% upon the execution of the funding agreements and the remaining 50% after the completion of the events and the submission of post-event reports and audited accounts to the TC;
- notes that the MEF Secretariat has started:
- (a) the practice of holding "kick-off" meetings with the organizers of MEF-supported events upon approval of their MEF applications and receipt of their acceptance of the conditional offers to inform the organizers of the expectations of the Government and the MEF Assessment Committee, as well as the obligation to facilitate the MEF Secretariat's monitoring work; and
 - (b) documenting the checking and/or clarifications made with the organizers of MEF-supported events during the verification and

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cross-checking of the post-event reports and audited accounts submitted by the organizers;

- notes that the MEF Secretariat will also take the following measures/actions in the near future:
 - (a) put a specific requirement in the Guidelines to MEF Application, application form, funding agreement and evaluation form, such that organizers of MEF-supported events must declare any potential conflict of interest, in particular those involving monetary transactions. Such declarations must either be done in writing or be recorded properly in writing;
 - (b) put a specific requirement in the application form and evaluation form, such that organizers of MEF-supported events must declare their management team and any related-parties who will be actively involved in organizing the events. Such declarations and the Government's agreement thereto must either be done in writing or be recorded properly in writing;
 - (c) put a specific requirement in the application form and evaluation form, such that organizers of MEF-supported events must disclose any intention on their part to organize in Hong Kong or overseas any kind of activities/events of similar contents and nature to the MEF-supported events. The MEF Secretariat will also develop a standard clause in the funding agreement on such requirement and the need for the organizers to seek the Government's consent;
 - (d) step up monitoring of the declaration of interests in relation to the procurement of services and recruitment of key personnel by the organizers of MEF-supported events; and
 - (e) step up random verification on the deliverables and targets as reported by the organizers and request the organizers to ensure that all event expenditure items should be supported by official invoices/receipts. The MEF Secretariat will check whether the organizers have fulfilled these requirements when conducting the random document checks;
- urges the MEF Secretariat to take steps to execute MEF funding agreements as early as practicable, so that disbursement of funds to the organizers could be made in phases subject to their fulfillment of the

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- pre-set milestones laid down in the funding agreements so as to secure better financial control;
- finds it unacceptable and inexcusable that some MEF funding had been wasted due to the lax attitude adopted by the TC in administering the MEF scheme, as evidenced by the following:
 - (a) an overpayment of \$227,000 was made to an organizer, albeit such overpayment was subsequently recovered from the organizer by the MEF Secretariat after being informed by Audit;
 - (b) a refund of an unspent event balance of \$280,000 was made by the organizer of Event C2 to a sponsor, instead of the Government, as the MEF Secretariat did not require organizers to seek its prior approval should there be any special arrangement for returning sponsorships to sponsors;
 - (c) a payment of \$100,000 and another payment of \$200,000 for financing the publicity costs of commercial sponsors, which should not have been borne by the MEF, were funded by the MEF funding because the TC did not explicitly state in the funding agreement that charges relating to commercial sponsors should not be covered by the MEF funding; and
 - (d) no queries had been raised with the organizer of Event E1 on the latter's making an unbudgeted gratuitous bonus payment of \$200,000 to its agent employed for organizing the event;
 - notes that the MEF Secretariat will state explicitly in the funding agreement that charges relating to commercial sponsors should not be covered by MEF funding, and that the organizers of MEF-supported events must notify the Government in writing and seek the Government's consent should there be any special arrangement for returning sponsorship to commercial sponsors;
 - finds it unacceptable and inexcusable that:
 - (a) only after the publication of the Director of Audit's Report ("Audit Report") did the CEDB and the TC see the need to deploy staff with accounting background to the MEF Secretariat to enhance the effectiveness and professionalism of the supervision and scrutiny work; and

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- (b) some MEF funding might have been wasted due to the lack of foresight of the CEDB/TC to assign staff with accounting knowledge in the MEF Secretariat upon the inception of the MEF, as evidenced by the overpayment of \$227,000 in one event to the organizer (paragraph 4.14(d) of the Audit Report refers) and the irregularity of \$40,775 identified by staff with accounting knowledge more recently deployed by the MEF Secretariat to conduct document inspection checks of Event C4;
- notes that the TC will seek resources for recruiting/deployment on a longer term basis staff members with accounting/auditing knowledge to the MEF Secretariat to enhance the effectiveness of its monitoring work;

Independent Commission Against Corruption ("ICAC")'s review on the operation of the MEF

- notes that in its review of the adequacy of the funding procedures of the MEF to prevent corruption conducted in 2010, two members of the Corruption Prevention Advisory Committee ("CPAC") of the ICAC also raised their concern about the need for continuing the MEF, which was set up at a time of financial difficulties and, in view of the changed economic situation, suggested that the TC should consider returning the unused funds to the Government;
- finds it unacceptable and inexcusable that the failure of the CEDB to mention the concern raised by two members of the CPAC of the ICAC about the need of continuing the MEF in its funding proposal to the Finance Committee ("FC") of the Legislative Council ("LegCo") in April 2012 for setting up the modified two-tier MEF might have hindered the FC from making an informed decision on whether or not to support the funding proposal;
- does not accept the explanation given by the CEDB that the concern raised by two members of the CPAC of the ICAC in November 2010 about the need of continuing the MEF was more a policy question and not related to corruption prevention and, because the TC had taken the relevant view into account when reviewing the way forward for the MEF in 2011, the CEDB did not see the need to inform the FC of such a policy view. Even if this was the case, the CEDB should have informed the FC the CPAC's policy view in its funding proposal for setting up the modified two-tier MEF in April 2012;

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- urges the CEDB and the TC to periodically consult the ICAC on the need to develop more stringent monitoring and control measures for the MEF scheme to ensure that public money is properly handled;

Way forward

- expresses astonishment and finds it unacceptable that although the modified two-tier MEF has been implemented since May 2012, no Tier 1 event has been held;
- notes that the TC has been discussing with the organizers of two potential Tier 1 events the possibility of introducing such events to Hong Kong, and urges the TC to continue to follow up this matter in a proactive manner;
- expresses astonishment and finds it unacceptable that since the inception of the MEF in 2009, only six of the 24 approved MEF events were brand new events;
- notes that the TC will introduce measures, such as enhancing the transparency of the MEF application schedule, proactively providing the reasons for failure of unsuccessful applications to the relevant applicants, and introducing a mechanism for eligible unsuccessful applicants to submit reviewed applications for further consideration by the MEF Assessment Committee, with a view to supporting more new Tier 2 events;
- urges the CEDB to review whether it is still necessary and appropriate to make the number of paid jobs created as an criterion to assess applications for MEF funding given the prevailing economic situation;
- notes that:
 - (a) the TC will consider whether, and if so how, the assessment criteria for MEF applications and the key performance indicators ("KPIs") for MEF-supported events should be updated and revised; and
 - (b) the Government will conduct a comprehensive review on the future of the MEF before its expiry in March 2017; and

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- expects the CEDB and the TC to expeditiously take on board the audit recommendations and other improvement measures as well as to adopt a more stringent and proactive approach in administering the MEF.

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| Specific comments |
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114. The Committee:

Achievement of MEF objectives

- finds it unacceptable and inexcusable that:
 - (a) although a high percentage of applications has been rejected during processing, there was no evidence that the Administration had taken effective measures to address the issue;
 - (b) although the funding agreements signed by the TC with the event organizers have set out in detail the event deliverables, targets and KPIs (such as number of paid jobs created, number of participants and special tourist packages to be developed) against which the latter have to report the actual outcome in their post-event evaluation reports, there were inadequacies in the TC's mechanism in verifying the achievements of these deliverables, targets and KPIs. In particular, Audit has found that:
 - (i) with regards to the number of paid jobs created, the TC did not randomly verify the staff employed for the events against any attendance records on the spot and did not conduct subsequent checks against the organizers' recruitment and payroll records. As a result, the number of paid jobs reported might have been overstated. For example, with Event C4 reported in Example 1 in the Audit Report, although the event was expected in the funding agreement to create a minimum of 3 100 paid jobs for the local people of Hong Kong, including 3 000 performers of specified types, the organizer informed the TC on Audit's enquiries that the event had only created 1 317 paid jobs for performers;

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- (ii) although the CEDB reported to the LegCo in April 2012 that a total of about 10 000 paid jobs had been created by the 16 MEF events approved as of March 2012, it is apparent that the 5 000 jobs created as a result of Events C1 and C2, which had been included among the "10 000 paid jobs", had been overstated; and
 - (iii) with regards to attracting over 900 000 participants (including more than 170 000 non-local visitors), as reported by the CEDB to the LegCo in April 2012, it was noted that a large number of the reported figures were related to a few events which were held in open area with free-flow pedestrians. The organizers were not required to inform or agree with the TC beforehand the counting methods adopted and the TC seldom verified or raised queries on the counting methods or the results the organizers reported in their post-event evaluation reports;
 - (c) many of the MEF events had not been too successful in attracting overseas visitors to come to Hong Kong specifically for the events. For nine of the 18 events with the requirement of developing special tourist packages included in the funding agreements, the organizers reported that no such packages could be developed; and
 - (d) only six brand new events had been held since the inception of the MEF (May 2009), but three of them had been subject to financial sanctions by the TC. Only one brand new event had been approved since mid-2011. Unless new events are approved in the future, the MEF will be supporting only a few repeated events. The imbalance between new and repeated events supported by the MEF is an issue which needs to be addressed;
- notes that the TC (and the MEF Assessment Committee) had imposed financial sanctions on some of the organizers for their failure in meeting the agreed targets and delivering the deliverables as set out in the funding agreements;
 - notes that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism), as the Controlling Officer of the MEF, has generally agreed with the audit

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recommendations in paragraph 5.16 of the Audit Report. In particular, the TC has undertaken, amongst others, to:

- (a) look into the operation of the MEF (both the Tier 1 and Tier 2 schemes), including developing a robust mechanism to validate the deliverables and targets reported to have been achieved by the organizers in their post-event reports;
 - (b) endeavour to identify worthwhile Tier 1 events and appealing new Tier 2 events for possible support by the MEF;
 - (c) enhance the operation of the Tier 2 scheme, including stating in the regret letter the main reasons for the failure in the case of unsuccessful applications, and holding kick-off meetings with the organizers in order to inform them the Government's and the MEF Assessment Committee's expectations and the obligations on their side;
 - (d) explore with the Labour Department to define the meaning of "paid jobs" in the funding agreement so as to avoid counting those non-local/local children as employees of the event; and
 - (e) ask organizers of MEF-supported events to develop more scientific methods in counting participants;
- requests the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) to set a timetable for implementing the various measures the TC has undertaken in paragraph 5.17 of the Audit Report;

Assessment of applications

- finds it unacceptable and inexcusable that:
- (a) there were inadequacies in the governance of the MEF Assessment Committee, such as low attendance of two Committee members;
 - (b) there were also inadequacies in the competence of some of the event organizers which must be local non-profit-making organizations but, very often, they were of a small scale and

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lacked the experience and ability to host large-scale events. They often had to struggle with the problem of inadequate financial and human resources and the challenge in managing the logistics of mega events, all of which would affect the success of the MEF events;

- (c) there were inadequacies in the TC's assessment of the associates of the organizer of Events C1, C2, C3 and C4 which had assumed key roles in organizing the events, such as the lack of information on the associates' capability, and the relationship and the extent of arm's length dealings between the organizer and the associates. For example, two associated major service providers in three events, i.e. Events C1, C2 and C3, held from 2011 to 2013 were even named as "Event Co-organizers" in all publicity documents for the events, but they were not so named in the funding agreements and were not joint applicants in the application forms. However, the TC had not raised any enquiries with the organizer;
 - (d) comments/reservations made by relevant bureaux/departments ("B/Ds") in assessing the applications were not always followed up by the TC; and
 - (e) in Example 7 reported in paragraph 3.13 of the Audit Report, although relevant B/Ds had commented that Event G was just merging and bundling together four local re-run productions which had been staged many times in the past, the TC had not included any provisions in the funding agreement to govern the re-performance of the four MEF performances on dates in close proximity to the MEF event period. It transpired that the organizers had staged one of the four performances (Performance A) several times locally and abroad on dates in close proximity to the MEF event period, without informing the TC and the MEF Assessment Committee, and the attractiveness of the event was also affected in that it had failed to attract the pledged numbers of participants and non-local visitors to the event;
- notes that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) has agreed with the audit recommendations in paragraph 5.18 of the Audit Report. In particular, the TC has undertaken, amongst others, to:

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- (a) improve the governance of the MEF Assessment Committee. For example, the MEF Secretariat has started arranging to use tele-conference facilities to enable MEF Assessment Committee members to take part in the meetings and will record the scores awarded to each MEF application under each individual assessment criteria in the minutes of the corresponding MEF Assessment Committee's meetings;
 - (b) require organizers in future to duly disclose their management teams and any associates who will be actively involved in organizing the proposed events in the application forms and post-event evaluation reports, and to record properly such declarations for the TC's checking;
 - (c) require organizers to disclose in the application forms and post-event evaluation reports in detail should they intend to organize in Hong Kong or overseas any kind of activities/events of similar content or nature in close proximity to the MEF-supported events; and
 - (d) include a standard clause in the funding agreement to require the organizer to make such a disclosure on (c) above and to secure the Government's prior consent as appropriate;
- requests the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) to set a timetable for implementing the various measures the TC has undertaken in paragraph 5.19 of the Audit Report;

Monitoring and evaluation of events

- finds it unacceptable and inexcusable that:
 - (a) in some MEF events, related agents were employed or major services were procured from associated services providers, but most organizers concerned had neither made written declarations of their relationship with the related parties nor notified the TC in writing of any related party procurements or staff recruitments they had made, as required by the funding agreements;

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- (b) irregularities were identified by Audit from its examination of selected MEF events, including suspected improper charging of the organizers' advertising and promotion expenses incurred for other shows against the MEF funding, payments not properly supported by official invoices/receipts, service procurements and recruitment of performers from related parties without Government permission, procurements and recruitments not supported by quotations/invoices/staff recruitment and payroll records with performers' acknowledgement of receipt, overpayment of \$227,000 to an organizer and improper refund of an unspent event balance of \$280,000 to a sponsor;
 - (c) the TC had generally not set any conditions in the funding agreements to govern the distribution of tickets resulting in that for one MEF event, 93% of the tickets were issued as free tickets to various parties, with only 7% sold to the general public; and
 - (d) owing to the poor condition of the Stadium turf pitch, Event J received some negative publicity. Apart from venue management, there was also scope for improvement in various aspects on the organization of Event J, such as lack of a concrete contingency plan and the difficulty to enforce the funding condition of requiring the organizer/team not to hold similar matches in "nearby" places;
- notes that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) has generally agreed with the audit recommendations in paragraph 5.20 of the Audit Report and the TC has undertaken, amongst others, to:
- (a) step up the monitoring of the declaration of conflicts of interest in relation to procurement and staff recruitment by the organizers;
 - (b) depending on the nature/type of individual cases, disallow the organizer to stage similar events in Hong Kong or overseas within a reasonable period or require the organizer to set out clearly the incremental costs on the advertising, promotion or costumes solely arising from the staging of the MEF-supported event;
 - (c) request organizers to ensure that all event expenditure items should be supported by official invoices/receipts as described in the Guide to Application and the TC will check whether the

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- organizers have fulfilled the requirement when conducting the random document inspection checks;
- (d) consider specifying in the funding agreement the minimum number of tickets required to be made available for public sale for fee-charging events;
 - (e) with the experience from Event J, consider defining key terms under the funding agreement to avoid enforcement difficulty, will request the organizers to explore and develop a contingency plan, and will specify such requirements in the funding agreement; and
 - (f) conduct a wash-up meeting with the organizer of the MEF-supported event within a month after the event has been held;
- requests the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) to set a timetable for implementing the various measures the TC has undertaken in paragraph 5.21 of the Audit Report;

Way forward

- expresses astonishment and finds it unacceptable that:
 - (a) although the modified MEF has been implemented since May 2012, no Tier 1 event has been held and the number of approved Tier 2 events was also reducing;
 - (b) although the Administration informed LegCo in April 2012 that it would consult the ICAC to develop more stringent monitoring and control measures relating to Tier 1 events, it had not yet worked out a more versatile monitoring mechanism for Tier 1 events; and
 - (c) no measurable and quantifiable key performance targets had been set to justify the commitment of \$150 million for the modified MEF;
- urges the CEDB to develop a more versatile mechanism for monitoring both Tier 1 and Tier 2 events;

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- notes that the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) has agreed with the audit recommendations in paragraph 5.22 of the Audit Report. In particular, the TC has undertaken, amongst others, to:
 - (a) consult the ICAC on the monitoring and assessment mechanism for future Tier 1 events; and
 - (b) look into whether it is still necessary and appropriate to use the number of additional paid jobs created as one of the key criteria to measure the performance of the Tier 2 events in future;
- requests the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) to set a timetable for implementing the various measures the TC has undertaken in paragraph 5.23 of the Audit Report; and
- notes that the Government will conduct a comprehensive review on the future of the MEF before its expiry in March 2017.

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| Follow-up action |
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115. The Committee wishes to be kept informed of the progress made in implementing the various audit recommendations and other improvement measures/actions.