

CHAPTER 5

**Commerce and Economic Development Bureau
Hong Kong Tourism Board**

**Hong Kong Tourism Board:
Corporate governance and administrative issues**

**Audit Commission
Hong Kong
25 October 2007**

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

Report No. 49 of the Director of Audit contains 12 Chapters which are available on our website at <http://www.aud.gov.hk>.

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

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

HONG KONG TOURISM BOARD: CORPORATE GOVERNANCE AND ADMINISTRATIVE ISSUES

Contents

	Paragraph
PART 1: INTRODUCTION	1.1
Background	1.2
Hong Kong Tourism Board	1.3 – 1.5
Income and expenditure of the Hong Kong Tourism Board	1.6 – 1.10
Tourism Commission	1.11
Audit review	1.12 – 1.13
General response from the HKTB	1.14
Acknowledgement	1.15
PART 2: CORPORATE GOVERNANCE	2.1
Background	2.2
Hong Kong Tourism Board's planning framework	2.3
<i>Audit observations</i>	2.4
<i>Audit recommendation</i>	2.5
Response from the HKTB	2.6
Approval of Business Plan and Budget	2.7
<i>Audit observations</i>	2.8
<i>Audit recommendations</i>	2.9
Response from the Administration	2.10
Membership of the Board and Committees	2.11 – 2.12
<i>Audit observations</i>	2.13 – 2.15

	Paragraph
<i>Audit recommendations</i>	2.16 – 2.17
Response from the Administration	2.18
Response from the HKTB	2.19
Attendance at Board/Committee meetings	2.20
<i>Audit observations</i>	2.21 – 2.23
<i>Audit recommendations</i>	2.24 – 2.25
Response from the HKTB	2.26
Response from the Administration	2.27
Proceedings of Board meetings	2.28
<i>Audit observations</i>	2.29
<i>Audit recommendations</i>	2.30
Response from the HKTB	2.31
Submission of papers to Board/Committees	2.32
<i>Audit observations</i>	2.33
<i>Audit recommendation</i>	2.34
Response from the HKTB	2.35
Minutes of Board/Committee meetings	2.36
<i>Audit observations</i>	2.37
<i>Audit recommendation</i>	2.38
Response from the HKTB	2.39
Management of conflict of interest	2.40 – 2.42
<i>Audit observations</i>	2.43
<i>Audit recommendations</i>	2.44
Response from the HKTB	2.45

	Paragraph
PART 3: PERFORMANCE MEASUREMENT AND REPORTING	3.1
Hong Kong Tourism Board's internal performance measures	3.2
Performance measures reported in the Economic Development and Labour Bureau's Controlling Officer's Report	3.3 – 3.4
<i>Audit observations</i>	3.5 – 3.6
<i>Audit recommendations</i>	3.7 – 3.8
Response from the HKTB	3.9
Response from the Administration	3.10
Provision of performance information to stakeholders	3.11 – 3.12
<i>Audit observations</i>	3.13
<i>Audit recommendation</i>	3.14
Response from the HKTB	3.15
Response from the Administration	3.16
PART 4: REMUNERATION AND RECRUITMENT	4.1
Background	4.2
Pay structures	4.3 – 4.4
Remuneration studies	4.5 – 4.9
<i>Audit observations</i>	4.10 – 4.13
<i>Audit recommendation</i>	4.14
Response from the HKTB	4.15
Thirteenth month pay	4.16
<i>Audit observations</i>	4.17
<i>Audit recommendation</i>	4.18
Response from the HKTB	4.19
Contract terms of Band A staff	4.20 – 4.21

	Paragraph
<i>Audit observations</i>	4.22 – 4.25
<i>Audit recommendations</i>	4.26
Response from the HKTB	4.27
Response from the Administration	4.28
Performance-based variable payments	4.29
<i>Audit observations</i>	4.30 – 4.39
<i>Audit recommendations</i>	4.40
Response from the HKTB	4.41
Acting allowance	4.42
<i>Audit observations</i>	4.43 – 4.44
<i>Audit recommendation</i>	4.45
Response from the HKTB	4.46
Provision of parking spaces	4.47
<i>Audit observations</i>	4.48
<i>Audit recommendation</i>	4.49
Response from the HKTB	4.50
Staff recruitment	4.51
<i>Audit observations</i>	4.52 – 4.55
<i>Audit recommendations</i>	4.56
Response from the HKTB	4.57
PART 5: PROCUREMENT MATTERS	5.1
Procurement requirements	5.2
<i>Audit observations</i>	5.3 – 5.8
<i>Audit recommendations</i>	5.9
Response from the HKTB	5.10

	Paragraph
PART 6: OTHER ADMINISTRATIVE ISSUES	6.1
Hong Kong Tourism Board's Financial Policies and Procedures	6.2
Entertainment expenses	6.3 – 6.5
<i>Audit observations</i>	6.6 – 6.13
<i>Audit recommendations</i>	6.14
Response from the HKTB	6.15
Business travel expenses	6.16 – 6.17
<i>Audit observations</i>	6.18 – 6.21
<i>Audit recommendations</i>	6.22
Response from the HKTB	6.23

	Page
Appendices	
A : Hong Kong Tourism Board — Organisation chart (extract) (30 June 2007)	63
B : Key performance indicators in the Hong Kong Tourism Board's Business Plan and Budget (2005-06 to 2007-08)	64 – 65
C : Summary of targets and performance indicators used by other National Tourism Organisations	66 – 67
D : Case A — Determination of relative weightings for technical and price assessments	68
E : Case B — Additional work performed without prior approval	69 – 70
F : A Hong Kong Tourism Board staff did not obtain prior approval for an overseas trip	71 – 72
G : Air tickets purchased before obtaining approval for business travel (2006-07)	73 – 74
H : Acronyms and abbreviations	75

PART 1: INTRODUCTION

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

Background

1.2 The tourism industry is one of the major pillars of the economy of Hong Kong. In 2006, the total visitor arrivals were 25.25 million. Tourism expenditure associated with inbound tourism amounted to \$119.4 billion.

Hong Kong Tourism Board

1.3 To promote inbound tourism, the Hong Kong Tourism Board (HKTB), a government-subsidised body, was founded on 1 April 2001 under the HKTB Ordinance (Cap. 302). It was reconstituted from and replaced the Hong Kong Tourist Association (HKTA — Note 1). According to the HKTB Ordinance, the objects of the HKTB are to:

- (a) endeavour to increase the contribution of tourism to Hong Kong;
- (b) promote Hong Kong globally as a leading international city in Asia and a world class tourist destination;
- (c) promote the improvement of facilities for visitors;
- (d) support the Government in promoting to the community the importance of tourism;
- (e) support, as appropriate, the activities of persons providing services for visitors to Hong Kong; and
- (f) make recommendations to and advise the Chief Executive of the Hong Kong Special Administrative Region (Chief Executive) in relation to any measures which may be taken to further any of the foregoing matters.

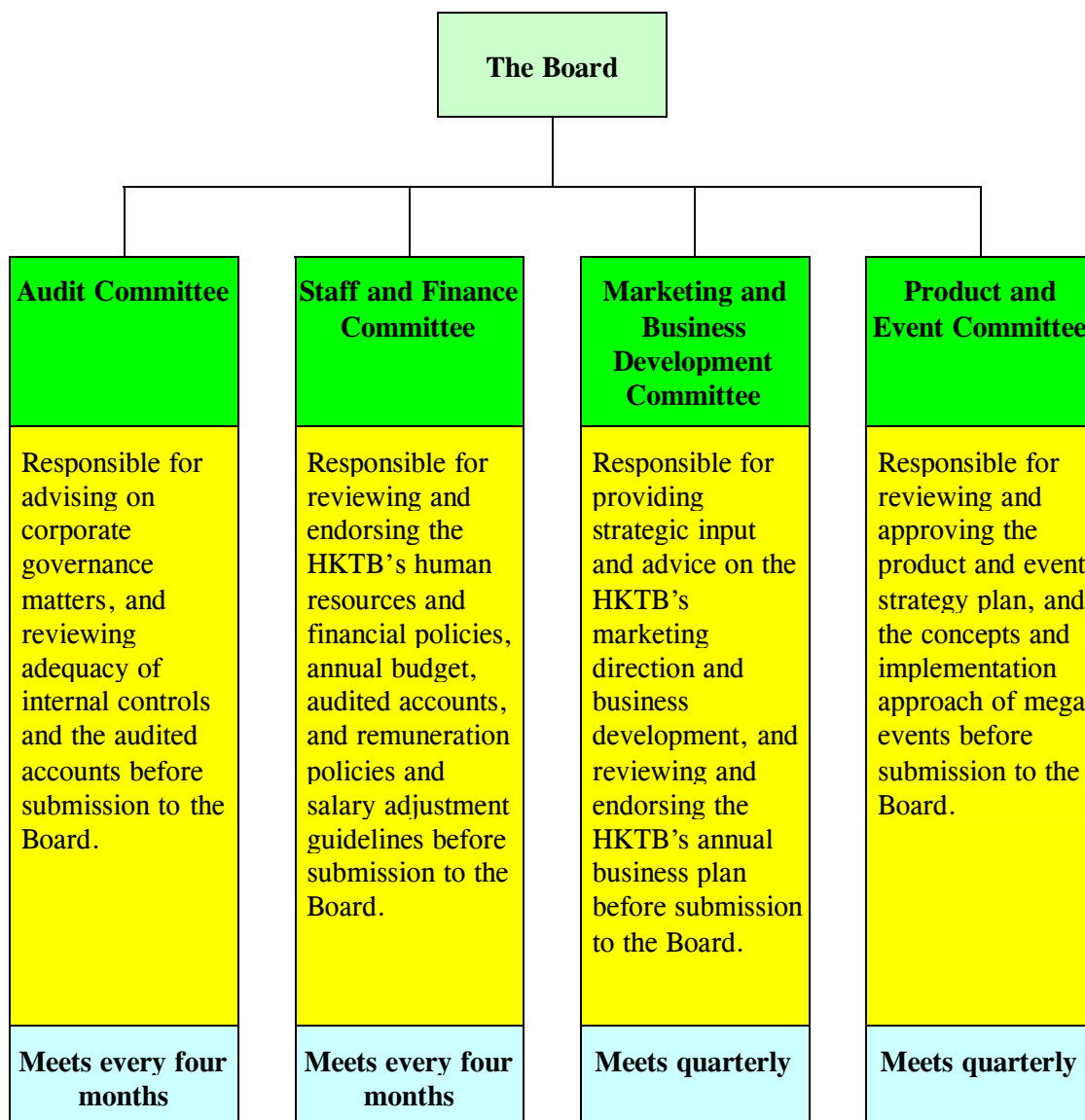
Note 1: *The HKTA was set up as a membership organisation under the HKTA Ordinance (Cap. 302) in 1957. Consequent upon the completion of the Strategic Organisation Review in late 1999, the Board of Management of the HKTA decided to abolish the membership system of the HKTA and reconstitute it into the HKTB. The HKTB Ordinance was enacted in March 2001 to effect these changes.*

1.4 ***The Board and Committees.*** The Board is the governing body of the HKTb. It consists of 20 members (Note 2) appointed by the Chief Executive (Note 3). Board meetings are held bi-monthly. Four Committees under the Board are responsible for overseeing various aspects of the HKTb's operations, as shown in Figure 1.

Note 2: *According to the HKTb Ordinance, of the 20 Board members, 8 are specified (i.e. two passenger carriers, two hotel operators, one licensed travel agent, one tour operator, one retailer and one restaurant operator). The remaining 12 members are not specified. The Government has appointed the Commissioner for Tourism as one of the 12 members since the establishment of the HKTb in April 2001 (see para. 1.11). As at May 2007, the other 11 members included individuals from different sectors, including marketing research, legal, banking, business, academic and entertainment.*

Note 3: *The authority for the Chief Executive to appoint members of the Board and approve the HKTb's Business Plan and Budget was delegated to the Financial Secretary in April 2001. The authority to approve the HKTb's Business Plan and Budget was further delegated to the then Secretary for Economic Development and Labour in July 2004. Following the reorganisation of the Government Secretariat with effect from 1 July 2007, the then Economic Development and Labour Bureau was merged with the then Commerce, Industry and Technology Bureau and was renamed the Commerce and Economic Development Bureau. The delegated authority was changed to the Secretary for Commerce and Economic Development.*

Figure 1
Committees under the Board



Source: HKTB records

1.5 According to the HKTB Ordinance, the Executive Director (ED) is the chief administrative officer of the HKTB. The ED and the Deputy Executive Director (DED) are responsible for the efficient conduct and management of the affairs of the HKTB. As at 31 March 2007, the HKTB had an establishment of 327 staff, comprising 226 staff of its Hong Kong Head Office, and 101 staff of its 15 Worldwide Offices (WWOs). The HKTB's organisation chart (extract) as at 30 June 2007 is shown at Appendix A.

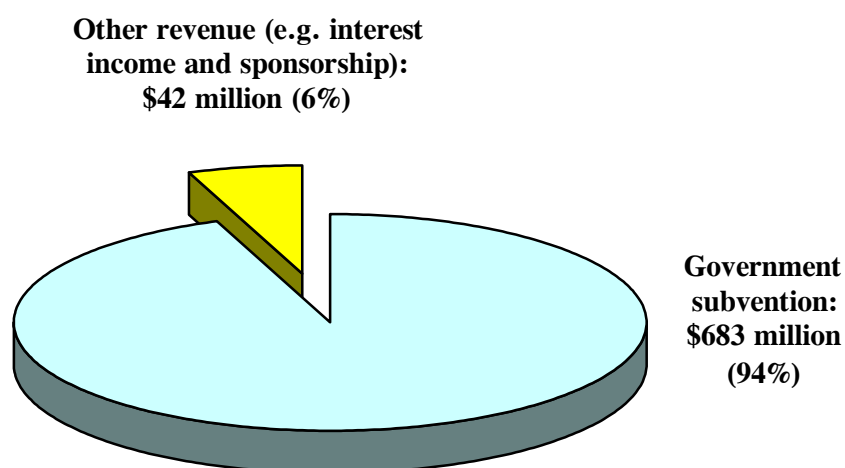
Income and expenditure of the Hong Kong Tourism Board

1.6 According to the audited accounts of the HKTB for 2005-06 (all years mentioned hereinafter refer to financial years commencing on 1 April), its income was \$725 million and its expenditure was \$724 million (see Figure 2).

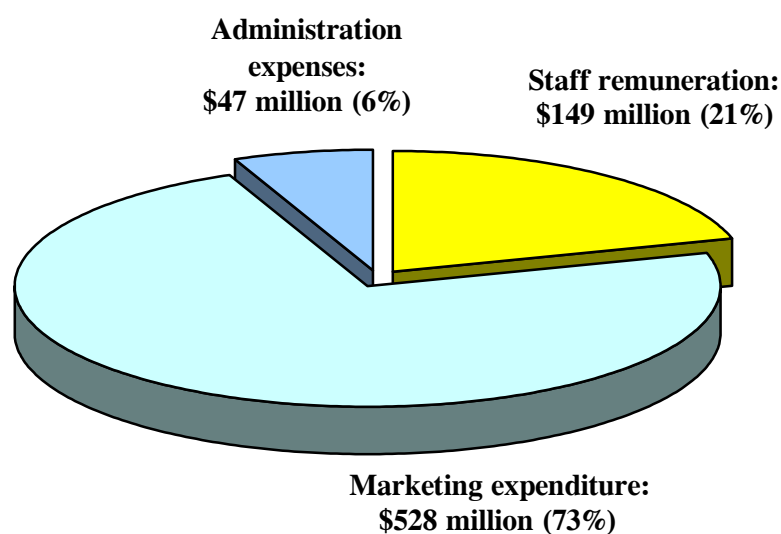
Figure 2

Income and expenditure of the HKTB for 2005-06

(A) Income



(B) Expenditure



Source: HKTB records

1.7 According to the World Tourism Organisation of the United Nations (UNWTO — Note 4), National Tourism Organisations (NTOs — Note 5) with marketing budget of over 10 million euros (about \$110 million) are considered as large-budget NTOs with extensive resources. They apply a much more extensive range of methodologies to the evaluation of marketing activity. The HKTb, with an annual marketing budget of well over \$110 million in recent years, can be regarded as a large-budget NTO (as defined by the UNWTO).

Recurrent subvention and additional funding

1.8 The Government's recurrent subvention to the HKTb was \$466.21 million for 2005-06 and \$466.15 million for 2006-07 (Note 6). To tie in with the opening of various major tourism facilities in 2005-06, the Government earmarked an additional funding of \$440 million for the HKTb to launch a series of strategic promotions worldwide over a two-year period of 2005-06 and 2006-07. An additional funding of \$30 million was also earmarked for the HKTb to enhance its Quality Tourism Services (QTS) Scheme.

1.9 The promotions funded by the \$440 million additional funding included:

- (a) ***2006 Discover Hong Kong Year (\$276 million).*** This campaign showcased the new image of Hong Kong and promoted Hong Kong as a “must-visit” destination in 2006; and

Note 4: *The UNWTO is a specialised agency of the United Nations and the leading international organisation in the field of tourism. It serves as a global forum for tourism policy issues and a practical source of tourism know-how. Hong Kong is an associate member of the UNWTO.*

Note 5: *An NTO refers to an autonomous body of public, semi-public or private status, established or recognised by the state as the body with competence at national level for the promotion and, in some cases, marketing of inbound international tourism.*

Note 6: *The recurrent subventions provided to the HKTb in recent years were as follows:*

<u>Year</u>	<u>\$ million</u>
2000-01	515
2001-02	506
2002-03	495
2003-04	482
2004-05	474

Between June 2003 and March 2005, the HKTb received an additional funding of \$379 million from the Government to implement the “Global Tourism Revival Campaign” to revive Hong Kong’s tourism which had been adversely affected by the Severe Acute Respiratory Syndrome outbreak.

- (b) ***Family and business travellers targeted promotional activities (\$164 million).***
This campaign targeted business and family visitors, leveraging on mega events and new tourism products to attract them to visit Hong Kong.

Due to the delay in the opening of new attractions and the Avian Flu threat in 2006, the HKTb deferred and scaled down a number of promotional activities. In January 2007, the HKTb obtained the approval of the Government to carry forward the unspent balance of \$70.6 million to 2007-08.

Marketing activities

1.10 The marketing activities of the HKTb for 2005-06 and 2006-07 covered the following key functions:

- (a) ***Marketing research.*** This covered the marketing research to gauge visitors' needs, feedback and satisfaction, and to compile tourism statistics;
- (b) ***Strategic planning.*** This covered the strategic planning for formulating marketing strategies;
- (c) ***Consumer marketing and communications.*** This was for the promotion of Hong Kong's tourism products, mega events and destination image globally through various marketing tactics such as advertising and consumer promotions;
- (d) ***Tourism marketing.*** This covered achieving top of mind awareness among global trade community, creating a business platform for travel trade to market Hong Kong as a must-visit destination through trade marketing activities including trade shows, trade promotions, trade education and trade communication, branding Hong Kong as an ultimate meeting, incentive, convention and exhibition destination and developing creative packages of Hong Kong itineraries;
- (e) ***Corporate communications and public relations.*** This was for communication with different stakeholder groups (e.g. the media, business chambers and associations and community leaders) to enhance their understanding of the HKTb's promotional strategies and initiatives, hosting of familiarisation visits by overseas media and cooperation with national media organisations in 16 key markets to produce special features/programmes/national report coverage on Hong Kong's new tourism products and to publish travel guides as insertions in magazines and newspapers; and
- (f) ***Destination marketing.*** This was for ensuring visitors' satisfaction and driving their spending in Hong Kong, staging of mega events (e.g. the International Chinese New Year Night Parade and the Hong Kong Shopping Festival),

organising experience management programmes, provision of visitor information services and the QTS Scheme.

Tourism Commission

1.11 Under the Commerce and Economic Development Bureau, the Tourism Commission (TC), established in May 1999, is headed by the Commissioner for Tourism. The TC is responsible for formulating and coordinating implementation of policies, plans and strategies for tourism development. At the same time, it leads and coordinates the work of other government bureaux and departments on policies and initiatives which have an impact on tourism development. The TC works closely with the HKTb and other organisations to promote the development of tourism in Hong Kong. It provides advice to the Secretary for Commerce and Economic Development on matters relating to the HKTb and tourism. The Government has appointed the Commissioner for Tourism as a member of the Board since the establishment of the HKTb on 1 April 2001. The Commissioner is also a member of all the four Committees under the Board (see Figure 1).

Audit review

1.12 The Audit Commission (Audit) has recently carried out a value for money audit of the HKTb. The audit findings are contained in two separate reports, as follows:

- (a) HKTb: Corporate governance and administrative issues (the subject matter of this report); and
- (b) HKTb: Planning, execution and evaluation of marketing activities (Chapter 6 of the Director of Audit's Report No. 49).

1.13 Audit's review of the corporate governance and administrative issues of the HKTb has focused on the following areas:

- (a) corporate governance (PART 2);
- (b) performance measurement and reporting (PART 3);
- (c) remuneration and recruitment (PART 4);
- (d) procurement matters (PART 5); and
- (e) other administrative issues (PART 6).

Audit has found that there are areas where improvements can be made and has made a number of recommendations to address the issues.

General response from the HKTb

1.14 The **ED, HKTb** thanks Audit for the study and recommendations. He has said that the HKTb is fully committed to ensuring effective and efficient use of the public funding entrusted with it. He has also said that:

- (a) systems are in place for performance measurement and reporting, as well as internal audit and control, and staff are reminded from time to time to adhere to the stipulated guidelines and procedures; and
- (b) as part of its ongoing improvement effort, the HKTb will make the best endeavour to address the issues requiring follow-up actions. In a number of cases, actions have already been taken or commenced with a view to strengthening the existing systems.

Acknowledgement

1.15 Audit would like to acknowledge with gratitude the full cooperation of the staff of the HKTb, the Commerce and Economic Development Bureau and the TC during the audit.

PART 2: CORPORATE GOVERNANCE

2.1 This PART examines corporate governance issues of the HKTB and notes that certain aspects relating to Board/Committee meetings need improvement.

Background

2.2 Good corporate governance of a publicly-funded organisation assists its board and management to pursue objectives that are in the interests of the organisation and its stakeholders, facilitates monitoring and encourages it to use its resources more efficiently. A sound strategic planning framework, as an element of corporate governance, is important for an organisation to allocate and manage its resources in order to deliver services that meet its objectives, and to achieve these objectives in an efficient and effective manner. A good performance measurement and reporting system is also an important element of corporate governance. The audit findings concerning the HKTB's performance measurement and reporting are reported in PART 3. The other corporate governance issues are reported in this PART.

Hong Kong Tourism Board's planning framework

2.3 The HKTB management prepares annually the HKTB's Business Plan and Budget for the endorsement of the Board. The Business Plan and Budget covers the following aspects:

- (a) ***Strategic overview.*** It sets out a performance review of the current financial year and the coming year's outlook, objectives and strategic focuses;
- (b) ***Budget review.*** It gives an overview of the coming year's budget, highlighting the allocation of expenditure to different functions (e.g. tourism marketing and destination marketing);
- (c) ***Marketing plan for each region.*** It sets out the marketing plan for each of the seven regions:
 - (i) the Mainland;
 - (ii) Taiwan;
 - (iii) North Asia;
 - (iv) South and Southeast Asia;
 - (v) Australia, New Zealand and South Pacific;

- (vi) the Americas; and
- (vii) Europe, Africa and the Middle East.

The plan sets out a performance review of the current financial year and the coming year's outlook, marketing objectives and strategic focuses as well as the budget and office operating plan for each region; and

- (d) ***Functional plan for Hong Kong Head Office.*** It sets out the objectives, strategic focuses, key initiatives and budgets of its six functions (strategic planning and marketing, tourism marketing, destination marketing, corporate communications and public relations, corporate support, and industry training and human resources).

Audit observations

2.4 According to a research report of the UNWTO, in general, two planning systems are used by most NTOs, namely strategic planning for the long term and operational planning for the shorter term. For strategic planning, the time-frames usually vary between three and five years. For operational planning, the time-frames generally range from one to three years, but are in most cases of one year. The long-term strategic planning enables an NTO to plan ahead with a greater degree of certainty, to engender a culture which is forward thinking, innovative and can stimulate cooperation between functions, and to think positively and flexibly about emerging markets in a proactive way. Audit noted that the vision and mission of the HKTb were set out in its annual Business Plan and Budget for the years 2002-03 and 2003-04. They were not set out in the Business Plan and Budget since 2004-05 because the HKTb considered that there were no changes. The HKTb included a road map for three years in the annual Business Plan and Budget for the years 2004-05 to 2006-07. The road map was not updated in 2007-08 because the HKTb considered that there was uncertainty in its funding for subsequent years. **In line with good practices, Audit considers it desirable to formalise the long-term strategic planning process and draw up a separate long-term Corporate Plan to set out the HKTb's mission, vision, long-term objectives and key results areas to be achieved.**

Audit recommendation

2.5 **Audit has recommended that the HKTb should consider formalising the long-term strategic planning process and drawing up a separate long-term Corporate Plan to set out its mission, vision, long-term objectives and key results areas to be achieved.**

Response from the HKTB

2.6 The **ED, HKTB** has noted the audit recommendations. He has said that:

- (a) the HKTB has always recognised the importance of long-term strategic planning, as demonstrated by the following:
 - (i) the HKTB has actually included a road map for three years in its annual Business Plan and Budget for approval by the Board since 2004-05; and
 - (ii) the road map was deliberately not updated in 2007-08 until after the new chairmanship and senior management have come on board in the second and third quarters of 2007. This way, the new Chairman and new management would be able to share new directions on the overall management of the HKTB's activities;
- (b) the HKTB's Corporate Plan, which outlined its vision, mission, pillars and cornerstones, was laid down in a Strategic Framework in the 2002-03 Business Plan and Budget. The Corporate Plan was expanded to include the operating principles for delivering the vision and mission, and included again in the 2003-04 Business Plan and Budget. These principles have remained unchanged since then;
- (c) the HKTB is committed to continuing the strengthening of its long-term strategic planning process by:
 - (i) conducting assessment of its long-term plan annually;
 - (ii) preparing a rolling three-year business road map annually; and
 - (iii) continuing the preparation of an annual Business Plan and Budget; and
- (d) the HKTB will give consideration to separating the Corporate Plan from the annual Business Plan and Budget.

Approval of Business Plan and Budget

2.7 The HKTB's budgetary cycle dovetails with the Government's annual budgetary process. The HKTB works closely with the TC on the HKTB's major programme of activities and the key expenditure items for the ensuing financial year. Based on the agreed parameters, the HKTB management draws up a proposed Business Plan and Budget for submission to the Board for consideration and endorsement. For the Business Plans and Budgets of the years 2002-03 to 2007-08, the endorsement dates by the Board and approval dates by the Government are shown in Table 1.

Table 1
Endorsement and approval of the HKTB's Business Plans and Budgets
(2002-03 to 2007-08)

Year of Business Plan and Budget	Board endorsement date	Government approval date	Time elapsed between the commencement of the financial year on 1 April and the Government approval date
2002-03	20/12/2001	2/8/2002	124 days
2003-04	13/1/2003	22/3/2003	N.A.
2004-05	2/2/2004	3/5/2004	33 days
2005-06	8/7/2005	20/9/2005	173 days
2006-07	19/1/2006	25/6/2006	86 days
2007-08	1/2/2007	25/6/2007	86 days

Source: HKTB and TC records

Audit observations

2.8 According to section 17B(1) of the HKTB Ordinance, the HKTB is required to forward the draft Business Plan and Budget to the Secretary for Commerce and Economic Development for approval before a date appointed by the Secretary (see Note 3 in para. 1.4). Audit noted that the Government had not appointed the submission dates of the Business Plans and Budgets for the years from 2002-03 to 2007-08. As shown in Table 1, only the 2003-04 Business Plan and Budget was approved by the Government before that financial year commenced. The other five business plans and budgets were approved (ranging from 33 to 173 days) after the commencement of the relevant financial years. The longest time elapsed was 173 days for the 2005-06 Business Plan and Budget. This Business Plan and Budget was endorsed by the Board on 17 February 2005 based on an estimated additional funding of \$544 million for the strategic promotion campaign over a two-year period for 2005-06 and 2006-07. As the additional funding turned out to be \$470 million, the 2005-06 Business Plan and Budget was revised and endorsed by the Board in July 2005. Other than this Business Plan and Budget, no similar revisions were noted in the other four business plans and budgets. The time elapsed for these four plans to be approved by the Government ranged from 33 to 124 days. Without an approved business plan and budget, the HKTB's operation would be affected as it was uncertain whether its marketing programmes could be implemented and funds could be committed. **The HKTB**

and the Government need to develop a mechanism which will ensure the approval of the HKTB's Business Plan and Budget in a timely manner.

Audit recommendations

2.9 **Audit has *recommended* that the Secretary for Commerce and Economic Development should:**

- (a) **appoint a date for the HKTB to forward the Business Plan and Budget to the Secretary for Commerce and Economic Development for approval in accordance with section 17B(1) of the HKTB Ordinance;**
- (b) **lay down arrangements for the approval of the HKTB's Business Plan and Budget before the commencement date of the relevant financial year; and**
- (c) **ensure that the arrangements are complied with in future.**

Response from the Administration

2.10 **The Secretary for Commerce and Economic Development has said that:**

- (a) the TC has conveyed to the HKTB the Administration's views on the HKTB's strategic directions, work priorities and key expenditure items when the HKTB engages the TC in formulating its Business Plan and Budget. The HKTB has also confirmed that it takes these views into account in finalising its Business Plan and Budget;
- (b) to formalise the submission and approval process as required by section 17B(1) of the HKTB Ordinance, he has already appointed a date as the deadline for the HKTB to forward its Business Plan and Budget for his approval; and
- (c) the Administration has also worked out with the HKTB the practical arrangements to ensure that the Business Plan and Budget can be endorsed by its Board and approved by him on a timely basis.

Membership of the Board and Committees

2.11 ***The Board.*** The Board, comprising 20 members, is the governing body of the HKTB and is given the authority to exercise general powers conferred upon it by the HKTB Ordinance. The composition of the Board is set out in paragraph 1.4.

2.12 ***The Committees.*** The Board has established four Committees to oversee various aspects of the HKTB's operations (see para. 1.4). The number of members of each Committee is not specified. According to the HKTB Ordinance, any persons may be appointed a member of any such Committees notwithstanding that he is not a member of the Board. Since April 2001, Board members and the senior management of the HKTB had been appointed as Committee members (see para. 2.14).

Audit observations

Need to review membership of the Board

2.13 In January 2001, the Legislative Council (LegCo) formed a Bills Committee to study the bill for the establishment of the HKTB. The Committee was concerned about the membership of the Board. To address its concerns, the then Economic Services Bureau (Note 7) informed the Bills Committee in February 2001 that the Government intended to appoint one member of the Board from the Consumer Council, and one from the front-line workers of the travel and tourism industry. The Government subsequently appointed two Board members from these two sectors as from 1 November 2001. The Board member from the front-line workers of the travel and tourism industry retired from the Board in November 2004. **However, Audit noted that, up to September 2007, no person from the front-line workers of the travel and tourism industry was appointed to the Board. The Board member who represented the Consumer Council retired from the Council in September 2005. He remained a Board member until expiry of his tenure in October 2007. Meanwhile, there is no representative from the Consumer Council.**

Need to review membership of the Committees

2.14 The senior management of the HKTB (i.e. the ED/DED) used to be members of all the four Committees. In 2005, following good practices (e.g. the guide for Audit Committees issued by the Hong Kong Institute of Certified Public Accountants (HKICPA)), **the Audit Committee decided to change the role of the HKTB management in the Committee from "Member" to "In attendance"**. Audit noted that the Marketing and Business Development Committee also made a similar change. However, as of July 2007, the ED and the DED still held membership in the Product and Event Committee and the Staff and Finance Committee respectively.

Note 7: *In July 2002, the Economic Services Bureau was renamed the Economic Development and Labour Bureau.*

2.15 According to their Terms of Reference, the Committees have the power to approve matters delegated from the Board. For example, the Staff and Finance Committee has the power to review and endorse human resources policies, including remuneration policies and salary adjustment levels. **To avoid potential conflict of interest, Audit considers that the HKTb needs to review the arrangement of appointing the HKTb management as Committee members.**

Audit recommendations

2.16 **Audit has *recommended* that the Administration should:**

- (a) **review the composition of the Board in the light of the Board's actual operational needs; and**
- (b) **ascertain whether there is still a need for appointing members of the Board from the Consumer Council and from the front-line workers of the travel and tourism industry.**

2.17 **Audit has *recommended* that the HKTb should review the arrangement of appointing its senior management as members of the Committees.**

Response from the Administration

2.18 **The Secretary for Commerce and Economic Development has said that:**

- (a) in considering appointments to the HKTb Board, the Administration takes into account the Board's strategies and work, and the range of talents needed to ensure its effectiveness. Due to the different cycles of appointments to the Board and the Consumer Council, it may not be possible to maintain cross-membership with the Consumer Council at all times. In fact, he has attempted to ensure that the consumer protection angle is taken care of in the Board membership; and
- (b) as for front-line workers of the tourism trade, he has invited the HKTb to engage the tourism industry at different levels. In addition to the existing practice of conducting prior consultation with travel trade stakeholders, the HKTb has planned to extend the consultation on the HKTb's plans and strategies to non-travel trade stakeholders, such as retail and catering industries, as well as academics, starting from 2007-08. A structured format will be adopted for the consultation and engagement process, with summary of feedbacks gathered being submitted to the respective Committees of the Board.

Response from the HKTB

2.19 The **ED, HKTB** agrees with the audit recommendation. He has said that with the Board's approval in September 2007, the HKTB management has ceased to be members of the Staff and Finance Committee and the Product and Event Committee with immediate effect.

Attendance at Board/Committee meetings

2.20 The overall effectiveness of the governing body of any institution to fulfil its responsibilities (e.g. providing strategic insights and effective monitoring of the performance of the management) is largely dependent on its members' knowledge, experience, competency and, most important of all, their commitment.

Audit observations

2.21 An audit analysis of the attendance rate of Board members at Board/Committee meetings is shown in Table 2.

Table 2

Attendance rate of Board members at Board/Committee meetings (2001-02 to 2006-07)

Year	Board meetings	Marketing and Business Development Committee meetings	Product and Event Committee meetings (Note 1)	Staff and Finance Committee meetings	Audit Committee meetings (Note 2)
2001-02	76%	71%	N/A	75%	N/A
2002-03	70%	67%	78%	94%	67%
2003-04	72%	79%	79%	76%	88%
2004-05	69%	67%	67%	75%	60%
2005-06	61%	78%	67%	60%	90%
2006-07	69%	67%	71%	68%	70%
Average	70%	72%	73%	73%	78%

Source: HKTB records

Note 1: The Product and Event Committee was not yet established in 2001-02.

Note 2: The Audit Committee did not hold any meeting in 2001-02.

2.22 Audit found that the attendance of some Board members at Board/Committee meetings was low, as shown below:

- (a) one specified member (see Note 2 in para. 1.4) only attended 9 of 31 (29%) Board meetings from 2002-03 to 2006-07. He was absent continuously from all 15 Staff and Finance Committee meetings from 2005-06 to 2006-07. However, he was still reappointed a member of the Board twice, in November 2005 and November 2006;
- (b) one member only attended 4 of 17 (24%) Board meetings, and 3 of 13 (23%) Marketing and Business Development Committee meetings from 2004-05 to 2006-07; and
- (c) another member only attended one of nine (11%) Product and Event Committee meetings from 2005-06 to 2006-07.

2.23 The low attendance of some members at Board/Committee meetings is a matter of concern because, without the expertise and experience of certain members representing specific sectors of the economy, the effectiveness of the Board/Committees might be affected. Audit considers that there is a need to take appropriate actions on this issue.

Audit recommendations

2.24 **Audit has recommended that the HKTB should:**

- (a) **monitor the attendance of members at Board/Committee meetings and ascertain the reasons for low attendance; and**
- (b) **take action to improve the attendance of members at Board/Committee meetings by, for example, issuing reminders to the members concerned if their attendance rate is low.**

2.25 **Audit has recommended that the Administration should take into account the attendance of members at Board/Committee meetings in considering their reappointment.**

Response from the HKTB

2.26 The **ED, HKTB** agrees with the audit recommendations. He has said that in addition to attending Board/Committee meetings, members offer advice from time to time and actively participate in HKTB events, all of which demonstrate their commitment to the

Board. He has also said that the HKTB has already implemented and put in place the following measures on the recommended areas:

- (a) attendance records of members at Board/Committee meetings in the past six months were provided to members in August 2007 to serve as a reminder to members about their attendance. Similar reminders will be sent to members every six months thereafter;
- (b) with the Board's approval, records of members' attendance will be disclosed;
- (c) as further steps to facilitate members' participation:
 - (i) facilities for conference calls will be arranged during meetings; and
 - (ii) in case members are not available for the meetings, the HKTB will actively invite their written comments; and
- (d) the number and frequency of meetings for individual Committees have been included in the Terms of Reference of the respective Committees, and the existing arrangement of setting tentative dates for the Board meetings at the beginning of each year will continue so that members can make arrangements in advance.

Response from the Administration

2.27 The **Secretary for Commerce and Economic Development** has said that:

- (a) the Government takes into account the attendance rate of members when considering their reappointment. He also noted that some members' attendance rates were low. He has invited the HKTB Secretariat to inform individual members of their attendance as a reminder of the importance of their attendance. The Secretariat has introduced this practice and issued the first round of reminders since August 2007; and
- (b) he notes that some members, though unable to attend all meetings due to busy travelling schedules, also contribute to the Board's work in different ways, e.g. giving written advice, attending events organised by the HKTB, liaison with relevant trade, etc.

Proceedings of Board meetings

2.28 According to the HKTB Ordinance, the proceedings at any meeting of the Board shall be conducted in such manner as the Board may determine. According to good practices, rules and procedures for the decision-making activities (e.g. quorum) of the governing body of any institution should be documented and made clear to all members.

Audit observations

2.29 Audit noted that an information manual, setting out the proceedings of Board meetings, was given to the Board members at the time of appointment. However, up to August 2007, this manual had not yet been approved by the Board. According to the manual, the quorum of a Board meeting is five (i.e. 25% of total membership of 20). On the other hand, the quorum of all four Committees is 50% of the Committee's total membership, as stated in their Terms of Reference.

Audit recommendations

2.30 **Audit has recommended that the HKTB should:**

- (a) **formalise the rules and procedures for the proceedings at HKTB Board meetings; and**
- (b) **consider revising the quorum of a HKTB Board meeting.**

Response from the HKTB

2.31 The **ED, HKTB** has noted the audit recommendations. He has said that:

- (a) the rules and procedures for the proceedings of the Board meetings set out in the HKTB Board Members Information Manual have already been formally adopted since September 2007; and
- (b) the HKTB management will review the quorum of a HKTB Board meeting in consultation with Board members.

Submission of papers to Board/Committees

2.32 According to the corporate governance guidelines for public bodies issued by the HKICPA, members of the governing board should ensure that they are provided with all the information that they need to properly consider issues to be discussed at a governing board meeting, in good time before the meeting.

Audit observations

2.33 According to the information manual for Board members, agenda papers are dispatched to Board members about four days preceding a Board/Committee meeting. Audit examination of HKTb records in 2005-06 and 2006-07 revealed that there were eight occasions where Board/Committee discussion papers were issued to members three calendar days or less before the meetings.

Audit recommendation

2.34 **Audit has recommended that the HKTb should comply with the four-day requirement for dispatching papers for Board/Committee meetings.**

Response from the HKTb

2.35 The **ED, HKTb** has noted the audit recommendations. He has said that:

- (a) the HKTb has always strived to adhere to the requirement of dispatching papers to Board members four days before a meeting, except in the case of unforeseen urgent matters; and
- (b) the HKTb will continue to make the best effort to ensure that papers are issued to Board members four days before a meeting.

Minutes of Board/Committee meetings

2.36 The minutes of meetings are the official records of the meeting proceedings. As a good practice, draft and final versions of minutes of meetings should be sent to members for their comments and record within a reasonable time after the meetings.

Audit observations

2.37 Audit examination of the minutes of all the 50 Board/Committee meetings (Note 8) held from 2005-06 to 2006-07 revealed that the HKTb generally took a long time to issue the draft minutes, as shown below:

Note 8: *The 50 meetings comprised 13 Board meetings, 9 Marketing and Business Development Committee meetings, 9 Product and Event Committee meetings, 15 Staff and Finance Committee meetings and 4 Audit Committee meetings.*

- (a) **Board meetings.** The time taken to issue the draft minutes ranged from 27 to 77 days, with an average of 48 days;
- (b) **Product and Event Committee meetings.** The time taken to issue the draft minutes ranged from 33 to 117 days, with an average of 61 days. In particular, the draft minutes of two meetings (held on 8 July and 6 October 2005) were issued to members 117 days and 97 days after the respective meetings; and
- (c) **Audit Committee meetings.** The time taken to issue draft minutes ranged from 31 to 90 days, with an average of 48 days.

Audit recommendation

2.38 **Audit has recommended that the HKTB should ensure that the draft minutes for Board/Committee meetings are issued to members for comments as soon as possible.**

Response from the HKTB

2.39 The **ED, HKTB** agrees with the recommendations. He has said that:

- (a) under the existing practice, the minutes of the previous Board meeting are distributed together with the agenda and information for the upcoming meeting, and sent to members about four days before the meeting, as set out in the HKTB Board Members Information Manual. This explains the time lapse between the meeting and the circulation of the minutes; and
- (b) in the light of the audit recommendation, minutes of the Board/Committee meetings will be circulated separately to members within three weeks of the respective meetings.

Management of conflict of interest

2.40 For good corporate governance, it is important for the HKTB to establish guidelines stating clearly what constitutes a conflict of interest and the procedures to be followed in dealing with situations where there is actual or perceived conflict of interest.

Declaration of interests by members

2.41 To manage conflict of interest of its members, the Board has adopted the guidelines for a two-tier reporting system issued by the Independent Commission Against Corruption (ICAC). Under the two-tier reporting system, the Chairman and members of

the Board shall register in writing their personal interest, direct or indirect, pecuniary or otherwise, when they first join the Board, and annually thereafter, to the secretary of the Board. The registration shall be made on a standard form. The types of interests requiring registration include:

- (a) proprietorships, partnerships or directorships of companies;
- (b) remunerated employments, offices, trades, professions or vocations;
- (c) shareholdings in a publicly listed or private company (e.g. 1% or more of the company's issued share capital); and
- (d) other declarable interests, taking into consideration the nature of work of the Board.

2.42 If a member has any direct personal or pecuniary interest in any matter under consideration at Board meetings, he is required to disclose his interest to the Chairman of the Board prior to the discussion of the matter. The Chairman shall then decide whether the member concerned may speak or vote in the matter, remain at the meeting as an observer or should withdraw from the meeting. When a known direct pecuniary interest exists, the secretary of the Board may withhold circulation of relevant papers to the member concerned. All cases of declaration of interests should be recorded in the minutes of the meeting.

Audit observations

2.43 Audit examination of the declaration of interest forms submitted by Board members for the period 2001-02 to 2006-07 revealed that a specified member (first appointed in November 2001 and re-appointed once in November 2004) did not submit his declaration of interest forms from 2001-02 to 2006-07. Two other members did not do so for 2003-04. In response to Audit's enquiry, the HKTb advised in May 2007 that it had reminded the members concerned to submit the forms each year.

Audit recommendations

2.44 **Audit has recommended that the HKTb should:**

- (a) **take action to ensure that declaration of interest forms are signed and submitted by all Board members; and**
- (b) **for the three members of the Board who had not submitted the declaration of interest forms, check whether there were situations of conflict of interest**

on matters (such as procurement, contracts and sponsorship) handled by them during the periods for which they had not submitted the forms.

Response from the HKTB

2.45 The **ED, HKTB** has said that the audit recommendations have been implemented. He has also said that:

- (a) all current Board members have already submitted their declaration of interest forms. In addition, they have been reminded to complete their annual declaration of interest forms in time and that the Board secretary would follow up the return closely; and
- (b) for the two ex-Board members who did not submit their declaration of interest forms, and for the one current Board member who did not submit his declaration of interest form for previous years, the HKTB has checked and confirmed that there was no situation of conflict of interest on matters approved by them during the periods for which they had not submitted the forms.

PART 3: PERFORMANCE MEASUREMENT AND REPORTING

3.1 This PART examines, and suggests improvement on, the performance measurement and reporting of the HKTB to provide better accountability.

Hong Kong Tourism Board's internal performance measures

3.2 Performance measurement is an important aspect of corporate governance. In the annual Business Plan and Budget submitted to the Board, the HKTB sets out four groups of key performance indicators (KPIs), namely visitor arrivals, length of stay, spending and visitor satisfaction. The four KPI groups have 26 performance indicators (see Appendix B). The HKTB regards these KPIs as its internal performance measures and reports its achievement against these performance measures to the Board from time to time. According to the HKTB, in addition to the four KPI groups, it also regularly monitors a number of indicators to measure the performance of its marketing activities (e.g. mega events). However, many of these KPIs, and the extent to which they are achieved, are not made known to the public.

Performance measures reported in the Economic Development and Labour Bureau's Controlling Officer's Report

3.3 The Guidelines issued by the Secretary for Financial Services and the Treasury in October 2005 stipulate the following provisions on the performance measures (targets and indicators) to be included in the Controlling Officer's Reports (CORs):

- (a) when developing performance measures, Controlling Officers should focus on "targets" measured preferably in terms of outcome (versus output or input) and should apply the most relevant performance indicators that measure economy, efficiency and cost-effectiveness of the resources deployed; and
- (b) the targets should indicate the extent to which the department's operational objectives are being achieved. They should highlight changes in the cost-effectiveness with which results are being achieved. In this respect, unit cost or productivity indicators should be provided.

3.4 Under the Programme "Subvention: Hong Kong Tourism Board" in its 2007-08 COR, the Economic Development and Labour Bureau (EDLB — see Note 3 in para. 1.4) stated that the aim was to promote inbound tourism and maximise the socio-economic contribution that tourism made to Hong Kong. The EDLB only set out in the COR indicators of Hong Kong's tourism performance rather than targets. It stated that the effectiveness of the performance of the HKTB could not be assessed entirely in quantifiable terms. To help illustrate the overall position and forecasts of the tourism

industry, indicators relating to visitor arrivals and spending (two KPI groups of the HKTB) were reported in the COR. Details are shown in Table 3.

Table 3
Performance indicators reported in the EDLB's COR for 2007-08

Indicators	2005 (Actual)	2006 (Revised estimate)	2007 (Estimate)
Visitor arrivals (million)	23.4	25.3	26.4
Increase on previous year (%)	+7.1	+8.1	+4.6
Tourism expenditure associated with inbound tourism (\$ billion)	105.7	117.3	124.4
Increase on previous year (%)	+14.1	+11.1	+6.1
Expenditure per capita overnight visitor (\$)	4,663	4,695	4,763
Increase on previous year (%)	+4.1	+0.7	+1.4

Source: EDLB records

Audit observations

Performance measures to evaluate overall performance

3.5 Audit notes that the four KPI groups set out in the HKTB's annual Business Plan and Budget measure the tourism industry's performance. They do not directly measure the HKTB's performance in its marketing activities. To demonstrate the effective use of public money in promoting tourism and assessing the effectiveness of its overall promotion efforts, the HKTB may wish to take measures to enhance its internal performance measures in the annual Business Plan and Budget. These include, for example, making reference to the following performance measures adopted by leading NTOs:

- (a) according to the UNWTO, a return on investment (ROI) analysis is a tool for appraising promotional investment (Note 9). In fact, the HKTB had used the

Note 9: *According to the UNWTO, ROI is a figure arrived at by quantifying what return an NTO achieves for a specified investment in promotion and marketing. It is increasingly common to use ROI calculations to justify the funding of destination agencies by public sector bodies or other sponsoring groups. The ROI may be estimated in monetary terms (the most common measure), visitor numbers, or in some other kind of measured output (e.g. increase in employment in tourism and increase in the number of out-of-season visitors) depending on the objectives of the promotional investment.*

ROI to estimate the benefits which would be obtained from the \$470 million additional funding (Note 10). The VisitBritain (the UK's NTO) also used the ROI as one of its performance measures. Its other performance measures included "Customer service standards", "Britain's image as a tourist destination" and "Customer database" (see Appendix C); and

- (b) the performance measures of Tourism New Zealand (the New Zealand's NTO) included "Prompted awareness of New Zealand as a travel destination", "Preference to travel to New Zealand", "Intention to travel to New Zealand" and "Campaign reach and impact" (see Appendix C).

Performance measures in the Hong Kong Tourism Board's annual report

3.6 Audit noted that HKTb did not set out performance measures (targets and indicators) in its annual reports during the years 2001-02 to 2005-06. To enhance transparency and accountability of its operation, Audit considers that the HKTb needs to report the performance achieved against the performance measures (targets and indicators) in its annual report.

Audit recommendations

3.7 **Audit has recommended that the HKTb should:**

- (a) **consider enhancing its performance measures in the annual Business Plan and Budget, making reference to good practices and performance measures adopted by leading NTOs; and**
- (b) **improve the reporting of performance measures by publishing the laid-down performance measures in its annual report.**

3.8 **Audit has recommended that the Secretary for Commerce and Economic Development should consider improving the reporting of the performance measures in the COR to better reflect the performance of the HKTb.**

Note 10: *When informing LegCo about the use of the additional funding of \$470 million in June 2005 for the two-year strategic promotion campaigns (see para. 1.8), the HKTb said that, based on its estimate, the campaigns would generate 1.2 million additional visitors, 2 million additional nights of stay and \$10.4 billion of additional spending. In terms of ROI, the return would exceed 20 times (i.e. every dollar of investment achieved more than \$20 in return).*

Response from the HKTB

3.9 The **ED, HKTB** has noted the audit recommendations. He has said that:

- (a) the HKTB has continuously enhanced its performance measures, regularly making reference to the UNWTO and the Pacific Asia Travel Association, as well as other NTO's best practices;
- (b) in addition to the four KPI groups, the HKTB constantly monitors a number of indicators to measure the performance of its marketing activities in order to make constant improvement to the HKTB's marketing activities. These include:
 - (i) findings of the Departing Visitor Survey, which collect a range of satisfaction and other indicators, such as "intention to revisit Hong Kong" and "recommendation to family/friends";
 - (ii) findings of global tracking studies, such as image of Hong Kong as a must-visit destination by potential travellers;
 - (iii) statistics on usage and satisfaction of the HKTB's "DiscoverHongKong" website; and
 - (iv) publicity value achieved from public relations and media activities;
- (c) the HKTB also reviews on a regular basis the relevancy of these indicators to its marketing activities; and
- (d) the HKTB will include the KPIs reported in the COR of the Commerce and Economic Development Bureau, and the actual performance against these indicators, in future annual reports of the HKTB.

Response from the Administration

3.10 The **Secretary for Commerce and Economic Development** has said that he will, in consultation with the HKTB, consider including in the next COR additional performance indicators, including length of stay and visitor satisfaction, to better reflect the performance of the HKTB.

Provision of performance information to stakeholders

3.11 *Tabling of annual report.* According to the HKTB Ordinance, as soon as possible after the accounts for any financial year have been audited, a copy of the statement of accounts, together with a copy of any report made by the auditor on that statement or on the accounts, shall be laid before LegCo. In addition, the HKTB shall, as soon as possible after the end of each financial year, make to the Chief Executive a report on its activities

during that year (Note 11). The Secretary for Commerce and Economic Development shall lay a copy of every such report before LegCo.

3.12 An audit analysis of the certification and tabling of the HKTB's annual reports (comprising both the statement of accounts and the report on its activities) for 2001-02 to 2005-06 is shown in Table 4.

Table 4

Tabling in LegCo of the HKTB's annual reports for 2001-02 to 2005-06

Year of annual report	Date of certification by auditor	Date of tabling	Time elapsed between audit certification and tabling (Days)
2001-02	5/9/2002	12/3/2003	188
2002-03	9/10/2003	17/3/2004	160
2003-04	12/10/2004	6/4/2005	176
2004-05	14/10/2005	29/3/2006	166
2005-06	20/9/2006	25/4/2007	217

Source: HKTB records

Audit observations

3.13 As shown in Table 4, the HKTB's annual reports for 2001-02 to 2005-06 were tabled in LegCo about one year after their year end dates (or 160 to 217 days after the accounts had been certified by the auditor). Audit noted that, in the course of examining the Statute Law (Miscellaneous Provisions) Bill 2005 (Note 12), some Members of the Bills Committee of LegCo considered that there should not be undue delay by statutory bodies in

Note 11: *The authority to note the report on the HKTB's activities was delegated to the Secretary for Economic Development and Labour in July 2004. With effect from 1 July 2007, the Secretary for Commerce and Economic Development is the delegated authority (see Note 3 in para. 1.4).*

Note 12: *The Statute Law (Miscellaneous Provisions) Bill 2005 involved making miscellaneous amendments to various Ordinances. One of the amendments was to revise the timing of the submission of a statutory body's annual report to the Chief Executive.*

preparing annual reports on their activities and there should be consistency in the time limit within which these bodies should submit their annual reports. The HKTb, through the EDLB, informed the Home Affairs Bureau in October 2005 that it was practicable to submit its annual report within nine months after the reporting period, if the annual report was printed on plain paper with no artistic design. **As the annual report provides important performance information to stakeholders, Audit considers that the HKTb needs to complete the preparation of its annual report as soon as possible.**

Audit recommendation

3.14 **Audit has *recommended* that the HKTb should complete the preparation of its annual report for tabling in LegCo at an early date, after the end of each financial year.**

Response from the HKTb

3.15 The **ED, HKTb** agrees with the audit recommendation. He has said that the HKTb will complete the preparation of the annual report for tabling in LegCo within nine months after the end of each financial year.

Response from the Administration

3.16 The **Secretary for Commerce and Economic Development** has said that he has invited the HKTb to ensure timely tabling of its annual report in LegCo. The HKTb undertakes to do so by the end of December in each year.

PART 4: REMUNERATION AND RECRUITMENT

4.1 This PART examines the remuneration and recruitment practices of the HKTB and identifies areas where improvements could be made.

Background

4.2 The Industry Training and Human Resources (ITHR) Department of the HKTB oversees human resources matters, including management of remuneration and recruitment. As at 30 June 2007, the ITHR Department, which comprised eight staff, was headed by a General Manager (GM) who reported to the DED. The HKTB has established its own policy and mechanism in designing staff remuneration packages.

Pay structures

Head Office staff

4.3 HKTB Head Office staff, including the ED and the DED, are graded into four broad pay bands (Head Office Bands A to D), and 18 pay levels. Band A is the top pay band for the staff in the top three tiers (the ED, the DED and the GMs). Band D is the lowest pay band for general support staff. Table 5 below shows the Head Office job positions in each pay band and the pay levels.

Table 5
Head Office job positions in each
pay band and the pay levels as at 30 June 2007

Pay band	Pay level (annual salary range)	Job positions
A	20 to 22 and 24 (\$1,321,895 to \$3,898,758)	ED DED GM
B	16 to 19 (\$437,218 to \$1,601,490)	Senior Managers Managers
C	13 to 15 (\$229,631 to \$566,839)	Assistant Managers Senior Executives Executives
D	6 to 12 (\$94,656 to \$314,425)	Officers/Secretaries Senior Assistants Senior Clerks Assistants/Clerks Drivers Office Assistants

Source: HKTB records

WWO staff

4.4 WWO staff are graded into four pay bands (WWO Bands A to D) and 11 pay levels (Levels 11 to 21). The salary ranges of WWO staff are benchmarked against the WWOs' local market pay level.

Remuneration studies***Remuneration study commissioned by the Government***

4.5 In January 2002, the Administration commissioned a consultancy study on the remunerations of senior executives in 11 selected statutory and other bodies, including the HKTb. One of the tasks of the study was to determine whether the then remunerations of the top three tiers of senior executives in these bodies were in line with those of the private sector.

4.6 The consultancy study was completed in June 2002. Among other things, the study found that the remunerations of the senior executives of the HKTb were comparable to the market level.

Remuneration studies commissioned by the HKTb

4.7 ***Remuneration study of Head Office staff.*** The HKTb commissioned a consultant to conduct a remuneration study of its Head Office staff. Among other things, the study (completed in September 2003) found that:

- (a) when comparing with market pay level, the pay levels of Assistant Managers (Level 15) and above were clustered between the market median and upper quartile;
- (b) for staff below the Assistant Managers (Level 14 and below), their pay levels were generally below the market median; and
- (c) there were 11 staff whose salaries were higher than 125% of the market median (i.e. the salary range should be within plus or minus 25% of the market median).

4.8 In May 2004, the Board decided to adjust the salary ranges of HKTb staff to the market level. In essence, the major changes were to raise the minimum pay of the lower grade staff (Head Office Band D), and to lower the maximum pay of the Manager grade staff (Head Office Band B). The adjusted salary ranges are summarised in Table 6 below.

Table 6

Adjusted Head Office annual salary ranges as at 1 September 2004

Pay band	Pay level	Salary range (Note 1)		
		Minimum (\$)	Mid-point (\$)	Maximum (\$)
A	24	—	3,568,000	—
	23 (Note 2)	N.A.	N.A.	N.A.
	22	1,788,750	2,385,000	2,981,250
	21	1,422,750	1,897,000	2,371,250
	20	1,209,750	1,613,000	2,016,250
B	19	879,400	1,172,500	1,465,600
	18	645,900	861,000	1,076,500
	17	518,100	690,800	863,500
	16	400,125	533,500	666,875
C	15	311,250	415,000	518,750
	14	255,300	340,400	425,500
	13	210,150	280,200	350,250
D	11-12	172,650	230,200	287,750
	9-10	135,000	180,000	225,000
	7-8	106,425	141,900	177,375
	6 or below	86,625	115,500	144,375

Source: HKTB records

Note 1: The salary ranges were subsequently adjusted upwards by 2.5%, 3% and 3.5% for the years 2005-06, 2006-07 and 2007-08 respectively in three annual salary reviews.

Note 2: The remuneration study did not recommend a salary range for pay level 23 as there was no corresponding position in the HKTB.

4.9 ***Remuneration study of WWO staff.*** In May 2006, a consultant commissioned by the HKTb completed a remuneration study of WWO staff. The review benchmarked the remuneration of WWO staff against the market pay median of each WWO's local market, with a salary range of plus or minus 25% around the market median. The study identified a few staff whose salaries had exceeded the maximum of their salary ranges. In May 2006, the Board agreed to manage these cases by freezing the salary or to expand the role of these WWO staff.

Audit observations

Head Office staff whose salary exceeded salary range maximum

4.10 ***Identified in the consultant's study.*** As at September 2003, the consultant noted that there were 11 cases where the Head Office staff's salary was higher than 125% of the market median (see para. 4.7(c)). Audit noted the following directions made by the Board for these cases:

- (a) in May 2004, the Board decided that for those Head Office staff with the top two performance ratings (Ratings 1 and 2), their salary would remain unchanged. It directed the HKTb to review each case to explore the possibility of expanding the job scope and responsibility of staff to a level commensurate with their role. Otherwise, their salary would be adjusted downward to 125% of the market median;
- (b) in July 2005, the Board decided not to reduce the salary of Head Office staff whose salary was higher than 125% of the market median. It directed the HKTb to manage these cases by containing the staff's future salary increase and to expand their role as far as possible; and
- (c) in March 2007, the Board decided that for those Head Office staff whose salary was higher than 125% of the market median and with top performance rating, there would be a 3.5% increase in their salary on 1 April 2007. The policy to cap their salary would also be removed.

As at April 2007, Audit noted that 5 of the 11 Head Office staff still received a salary higher than the maximum of their respective salary ranges. One of these five staff was granted a salary increment in 2007-08 (see sub-paragraph (c) above).

4.11 ***Due to salary increase.*** Audit noted that another two Head Office staff received a salary exceeding the maximum of their respective salary ranges as at April 2007. These staff were granted a salary increment in 2007-08, which resulted in their salaries exceeding the maximum of the salary range.

4.12 Audit estimated that, had the seven Head Office staff been paid salaries within their respective salary ranges up to July 2007, their total salary cost would have been reduced by \$0.9 million.

WWO staff whose salary exceeded salary range maximum

4.13 Audit noted that as at April 2007, two WWO staff received salaries higher than the maximum of their respective salary ranges. One staff had been identified in the 2006 remuneration study of WWO staff, and the other one joined at a high entry pay before the completion of the study. Audit estimated that, had the two WWO staff been paid salaries within their respective salary ranges up to July 2007, their total salary cost would have been reduced by \$70,000.

Audit recommendation

4.14 **Audit has recommended that the HKTb should ensure that there are good reasons for allowing staff to receive a salary higher than the maximum of their respective salary ranges.**

Response from the HKTb

4.15 The **ED, HKTb** has said that the reduction of staff salaries involves legal implications. Ongoing effort has been made on the recommended area, and careful consideration has been given on the justifications for each case where staff members receive salaries higher than the maximum of their respective approved salary range, and the possibility of expanding their roles. He has also said that:

- (a) two of the five Head Office staff mentioned in paragraph 4.10 have already had their roles expanded;
- (b) the two Head Office staff mentioned in paragraph 4.11 achieved top performance rating. In accordance with the Staff and Finance Committee's approval on the annual salary review for 2007-08, they should not be excluded from getting a salary increment. As such, following the annual salary review in April 2007, their salary exceeded the maximum of their respective salary range;
- (c) for the two cases involving WWO staff mentioned in paragraph 4.13, the HKTb will address the issue by the end of this financial year; and
- (d) the HKTb will continue to identify ways to resolve such cases and will ensure that the situation will be rectified by 2009.

Thirteenth month pay

4.16 All Head Office Band B staff and below (i.e. Senior Manager and below) are entitled to a 13th month pay. The 2003 consultancy study (see para. 4.7) recommended that the HKTB should replace the 13th month pay by a performance-based variable payment. The recommendation was endorsed by the Staff and Finance Committee in March 2004. In May 2004, the Board gave its approval to implement the recommendation, with effect from April 2005.

Audit observations

4.17 In June 2004, the DED reported to the Board that the HKTB had started consultation with Senior Managers to gather their views on the arrangement of converting the 13th month pay into a performance-based variable payment. In July 2004, the DED reported to the Board the findings of the staff consultation. Since it would affect the guaranteed contractual annual earnings of the staff, the staff side was not supportive. To maintain a stable and motivated staff force, the DED recommended to the Board that the performance-based variable payment should be introduced after 2005-06 when the new performance management system and the variable pay mechanism were ready. **Up to June 2007, such an arrangement had not been introduced.**

Audit recommendation

4.18 **Audit has recommended that the HKTB should seek the direction of the Board concerning the introduction of the arrangement of converting the 13th month pay into a performance-based variable payment.**

Response from the HKTB

4.19 The **ED, HKTB** has noted the audit recommendation. He has said that the 13th month pay forms part of the total annual take-home pay of staff. Converting the 13th month pay into a performance-based variable payment could have legal implications, and adverse impact on staff morale. The HKTB new management will submit a proposal to the Board to close this outstanding issue within this financial year.

Contract terms of Band A staff

4.20 Head Office Band A staff comprise the ED, the DED and the GMs. According to the HKTB Ordinance, the appointment, remuneration and other terms of appointment of

the ED and the DED shall be subject to the approval of the Chief Executive. For the ED, the authority was delegated to the Financial Secretary, as from April 2001 (Note 13).

4.21 As at April 2007, all Head Office Band A staff (except the DED) were on contract terms of two or three years. Audit selected the employment contracts of Band A staff for examination. The audit findings are reported below.

Audit observations

Contract terms of the ED not fully covered by the Financial Secretary's approval

4.22 **Annual salary adjustment clause.** On 18 March 2004, the Financial Secretary, based on the TC's advice, approved the reappointment of the ED for a three-year period starting 19 March 2004. In her employment contract, there was a clause stating that the salary would be reviewed every 12 months based on performance, cost of living and market situation. The Commissioner for Tourism, as a member of the Staff and Finance Committee, became aware of this contract clause in February 2006 when the Committee was requested to consider, based on this clause, the annual salary adjustment of the ED. The TC considered that the Financial Secretary's approval of the ED's remuneration package in March 2004 did not cover such an employment term. In the event, no salary adjustment was made. In fact, the TC had not received a copy of the employment contract before recommending the reappointment, remuneration and terms of appointment of the ED for the Financial Secretary's approval.

4.23 **Medical and dental benefits.** According to the employment contract, the ED was entitled to medical and dental benefits **as set out in the Employees' Handbook of the HKTb**. In September 2004, the Chairman of the Board gave approval for the ED to join an executive medical plan for herself and her family (the premium paid for two years was about \$177,000 — Note 14). **Audit considers that the HKTb should have incorporated the executive medical plan into the ED's employment contract for the Financial Secretary's approval.**

Note 13: *For the DED, the authority was delegated to the then Secretary for Economic Services in April 2001 (subsequently to the Secretary for Economic Development and Labour in July 2002 and the Secretary for Commerce and Economic Development in July 2007).*

Note 14: *The HKTb paid an annual premium of \$84,921 (USD10,872) for the 12-month period ended September 2005, and \$92,483 (USD11,895) for the 12-month period ended September 2006.*

Inclusion of one-year break clause in two GMs' contracts

4.24 Audit noted that in the renewal of two-year contracts for two GMs in 2006, a break clause was included. This break clause, approved by the Staff and Finance Committee, provided that the GMs would be entitled to a portion of the contract gratuity pro-rated to the period of employment after one year of service, if they left the HKTB before contract expiry. Audit noted that there was no such break clause in the previous contracts of the staff concerned. At the Staff and Finance Committee meeting held in May 2006, the Commissioner for Tourism was against the introduction of such a break clause as it would not be conducive to securing continuity of senior management. In July 2006, the Chairman of the Staff and Finance Committee and the Commissioner for Tourism agreed that the management might offer the one-year break clause to the staff only after failing to secure the agreement of the GMs to enter into a two-year contract.

4.25 Audit noted that in the contracts entered into with another two GMs in May 2007, no break clauses were included. **In Audit's view, the HKTB needs to review the inclusion of break clauses in its senior staff employment contracts.**

Audit recommendations

4.26 **Audit has recommended that the HKTB should:**

- (a) **ensure that all the terms and conditions of employment are incorporated into the employment contracts for approval by the appropriate authority;**
- (b) **for future employment contracts to be entered into with the ED or the DED, forward the draft contracts to the TC in advance for necessary action; and**
- (c) **review the need for inclusion of break clauses in the senior staff employment contracts to provide for the employee's eligibility for contract gratuity, taking into account the importance of maintaining continuity of senior management.**

Response from the HKTB

4.27 The **ED, HKTB** has said that measures on the recommended areas have already been made. He has also said that:

- (a) all the terms and conditions of employment for the current ED and DED have been incorporated into the employment contracts for approval by the Board and the Government;

- (b) the draft employment contracts for the current ED and DED have already been forwarded to the TC in advance for necessary action; and
- (c) from April 2007 onwards, no break clause has been included in the senior staff employment contracts.

Response from the Administration

4.28 The **Secretary for Commerce and Economic Development** has said that he asked the HKTb to rectify the situation as soon as he became aware of the situation in April 2006. In the last ED appointment exercise conducted in May 2007, the HKTb provided him with a full copy of the draft contract for the incoming ED based upon which he sought the Financial Secretary's approval of the proposed terms and conditions of appointment.

Performance-based variable payments

4.29 All Head Office Band A staff are entitled to a performance-based variable payment. The performance-based variable payments awarded to them during the years 2004-05, 2005-06 and 2006-07 averaged about \$1.43 million a year. Table 7 summarises the conditions under their contracts for the award of such payments.

Table 7

**Contract conditions for the award of
performance-based variable payments to Head Office Band A staff**

Staff	Contract conditions for award	Amount
ED	Satisfactory achievement of targets as agreed with the Board on an annual basis , for instance, visitor arrivals, tourism spending, performance indicators with reference to the annual Business Plan and Budget	Up to 15% of the total annual package
DED	Satisfactory achievement of defined objectives as agreed with the ED	10% of the total annual package
Three GMs	Satisfactory achievement of defined objectives (specific deliverables and/or quantifiable targets, for instance, visitor arrivals, tourism spending, etc.) as agreed with the ED on an annual basis	10% of the total annual package
One GM	Satisfactory achievement of defined objectives (specific deliverables and/or quantifiable targets, for instance, visitor arrivals, tourism spending, etc.) as agreed with the DED on an annual basis	10% of the total annual basic salary

Source: HKTB records

Note: This table does not include the contract conditions for one GM post which had been vacant from January 2005 to May 2007.

Audit observations

Targets/defined objectives not agreed annually

4.30 As shown in Table 7, the award of performance-based variable payments to these senior executives was based on the achievement of **targets** (for the ED), and **defined objectives** (for the DED and GMs) as agreed with the relevant authority. **However, there was no documentary evidence to show that the targets and defined objectives had been agreed with the senior staff concerned for determining the award of the performance-based variable payments to them.**

4.31 In response to Audit enquiries, in May 2007 the HKTB said that the performance indicators and the other objectives in its annual Business Plan and Budget were considered as the agreed targets and defined objectives. Audit noted that, in response to a LegCo question, the then Secretary for Economic Development and Labour said in May 2007 that:

- (a) the performance pay of the ED depended on whether she could achieve four performance indicators, namely visitor arrivals, tourism spending, length of stay and satisfaction level, as set by the Board in its annual Business Plan and Budget, as well as other factors regarding her administrative abilities and performance, such as competence in implementing marketing strategies, organisational as well as management ability, etc;
- (b) the four performance indicators were set by the HKTB every year in its annual Business Plan and Budget as performance targets. They were also important considerations for assessing the performance of the HKTB's senior executives to determine whether performance pay was to be granted; and
- (c) in drawing up its annual Business Plan and Budget, the HKTB would make an estimate on the four performance indicators, using a set of methodology based on market surveys. These were all objective and quantifiable yardsticks.

4.32 Audit noted that the four performance indicators (visitor arrivals, tourism spending, length of stay and satisfaction level) in the annual Business Plan and Budget referred to four groups of indicators. As shown at Appendix B, in the 2006-07 Business Plan and Budget, these four indicator groups had a total of 26 performance indicators. In the absence of a clearly laid-down set of objective criteria for determining the award of performance-based variable payments, Audit noted that different criteria had been used for determining the award for the following senior executives:

- (a) the ED for the years 2004-05 to 2006-07 (paras. 4.34 to 4.37);
- (b) the DED for the years 2004-05 to 2006-07 (para. 4.38); and
- (c) the four GMs for the years 2004-05 to 2006-07 (para. 4.39).

4.33 **For the purpose of objectively determining the award of performance-based variable payments to its senior executives, Audit considers that the HKTB needs to clearly spell out and document the specific performance indicators agreed and which would be used for performance appraisal.**

Performance-based variable payment to the ED

4.34 Table 8 shows the achievement of performance targets, as reported in the ED's self-assessment reports for 2004-05 to 2006-07.

Table 8

**Achievement of performance targets as reported in the ED's self-assessment reports
(2004-05 to 2006-07)**

Performance target	Achievement of target		
	2004-05	2005-06	2006-07
Total visitor arrivals	Yes	Yes	No*
Vacation arrivals	Yes	Yes	—
Convention and exhibition arrivals	Yes	Yes	Yes
Convention and exhibition events	Yes	Yes	—
Mainland visitor arrivals	—	—	No
Ex-Mainland visitor arrivals	—	—	No
Average length of stay	No	Yes	No*
Overnight visitor per capita spending (PCS)	No	Yes	Yes*
Same-day in-town visitors PCS	Yes	Yes	Yes
Destination consumption expenditure	No	Yes	—
Tourism expenditure associated to inbound tourism	—	—	Yes*
Overall satisfaction	Yes	Yes	Yes*
Subsequent action			
Date of approval by the HKTB's Remuneration Review Committee	30/11/2006	30/11/2006	27/3/2007
Payment awarded	Full payment	Full payment	62.8% of full payment

Source: HKTB records

Remarks: "*" denotes performance targets used by the HKTB's Remuneration Review Committee for determining the award of the performance-based variable payment to the ED for 2006-07.

4.35 ***Performance for 2004-05.*** Three of the ED's nine reported targets were not achieved. The ED commented that this was mainly due to the lower spending and the higher visit frequency phenomenon of Individual Visit Scheme (Note 15) visitors from the Mainland. In terms of overnight visitor per capita spending, almost all markets had surpassed their previous record in 2004 and the drop against this target was mainly due to the Mainland market. The HKTb's Remuneration Review Committee (RRC — Note 16) decided to award the full payment to the ED. Audit noted that the 2004-05 self-assessment report of the ED was only submitted to the RRC in February 2006, almost one year after the end date of the performance period of 18 March 2005.

4.36 ***Performance for 2005-06.*** For 2005-06, the ED met all the nine reported targets. The RRC decided to award her the full payment.

4.37 ***Performance for 2006-07.*** For 2006-07, the ED reported nine performance targets. The RRC used five of the nine targets to assess the ED's performance (see Table 8 items marked with “*”) and noted that she did not meet two of the five targets. The RRC decided to award the ED 62.8% of the full payment.

Performance-based variable payment to the DED

4.38 According to the DED's self-assessment reports for 2004-05 to 2006-07, her performance was evaluated against the Key Strategic Focuses (KSFs). The KSFs were qualitative objectives involving resource management, financial and corporate support services and human resources management. The ED considered that the DED achieved all the KSFs and approved the award of the full performance-based variable payments to her for 2004-05 to 2006-07.

Note 15: *The Individual Visit Scheme, introduced under the framework of the Mainland and Hong Kong Closer Economic Partnership Arrangement, was first implemented on 28 July 2003. Initially, it allowed residents in Dongguan, Zhongshan, Jiangmen and Foshan in the Mainland to visit Hong Kong two times within a period of three months and stay in Hong Kong each time up to seven days. The Scheme has since been extended to other Mainland cities. As at June 2007, there were 49 cities under the Scheme.*

Note 16: *The RRC was set up to consider and approve the remuneration matters of the senior executives of the HKTb. As decided by the Board, the Staff and Finance Committee served as the RRC as from May 2003.*

Performance-based variable payments to four GMs

4.39 The assessment of one GM's performance in 2004-05 to 2006-07 was based on qualitative objectives. The relevant authority considered that this GM had achieved all the qualitative objectives and approved the award of the full performance-based variable payments for 2004-05 to 2006-07. Regarding the other three GMs, their performance for the years 2004-05 to 2006-07 was as follows:

- (a) ***Performance for 2004-05.*** According to the 2004-05 self-assessment reports of the three GMs, one GM did not meet four of the eleven KPIs, one GM did not meet three of six KPIs, and the remaining GM did not meet two of four KPIs. Two GMs gave explanations for not meeting the KPIs. The relevant authority agreed to pay the three GMs the performance-based variable payments in full;
- (b) ***Performance for 2005-06.*** According to the 2005-06 self-assessment reports of the three GMs, one GM met all of the six KPIs, one GM met all the four KPIs and the remaining GM did not meet one of the nine KPIs. The relevant authority agreed to pay them the performance-based variable payment in full; and
- (c) ***Performance for 2006-07.*** According to the 2006-07 self-assessment reports of the three GMs, one GM did not meet four of the nine KPIs, one GM did not meet two of the five KPIs and the remaining GM did not meet three of the five KPIs. For one GM's performance, the relevant authority commented that the optimum results could be achieved within the external constraints that were beyond the control of the HKTb. For the other two GMs, the relevant authority considered that their performance was affected by external factors and that the KPIs not met were not the direct objectives of one GM. The relevant authority agreed to pay all the three GMs the performance-based variable payments in full.

Audit recommendations

4.40 **Audit has recommended that the performance-based variable payments of the HKTb's senior executives should be awarded based on verifiable performance assessments using agreed objective criteria. In particular, the HKTb should:**

- (a) **clearly spell out and document the specific performance targets for determining the award of the performance-based variable payments to senior executives;**
- (b) **set out guidelines for determining the award of performance-based variable payments, including a mechanism for reducing the performance-based variable payments to cater for non-achievement of some performance targets; and**

- (c) ensure that the performance appraisal reports of senior staff are completed as soon as possible after the year under review.

Response from the HKTB

4.41 The **ED, HKTB** has noted the audit recommendations. He has said that:

- (a) the specific performance targets of senior executives (Band A staff) have all along been documented comprehensively in the HKTB annual Business Plan and Budget, which is used as the yardstick to assess the staff's performance and determine their variable pay at year end;
- (b) to strengthen the performance evaluation process and to better reflect the performance of staff, the HKTB new management is working on:
 - (i) introducing a performance appraisal system for Band A staff that includes overall organisational and functional specific deliverables; and
 - (ii) under the new system, the performance-based variable payments of all Band A staff will be subject to the approval of the RRC, which is comprised of the HKTB Chairman and the Staff and Finance Committee; and
- (c) senior staff will be reminded to observe the timelines and complete their performance appraisal reports within one month after the year has ended.

Acting allowance

4.42 Under the HKTB's established policy, staff assuming the full duties of a managerial position above his/her normal duties for more than one month are eligible for an acting allowance equivalent to one-fourth of the minimum pay of the higher office.

Audit observations

4.43 Audit noted that there were four acting appointments during the period April 2003 to June 2007. The acting periods ranged from one month to 22 months. The total acting allowance paid was about \$1 million.

4.44 In September 2005, the TC commented that the remuneration package of the HKTB staff had already been delinked from that of civil servants and benchmarked against the market. The HKTB acting allowance arrangement did not seem widely practised in the private sector. The HKTB would easily be criticised as cherry-picking arrangements that

were most favourable to its staff. The TC suggested the HKTB to review its policy on granting acting allowance. Audit noted that, up to August 2007, the HKTB had not taken any follow-up action on the TC's comments. In Audit's view, there is a need for HKTB to review the payment of an acting allowance to its staff.

Audit recommendation

4.45 **Audit has recommended that the HKTB should conduct a review of the acting allowance policy as soon as possible, taking into account market practices and the need to economise on the use of public money.**

Response from the HKTB

4.46 The **ED, HKTB** agrees with the audit recommendation. He has said that the Board has approved in September 2007 the abolition of granting acting allowances with immediate effect.

Provision of parking spaces

4.47 Four parking spaces were rented by the HKTB for the use of the DED and three GMs in 2006-07. The total amount of rent paid was \$133,000 in 2006-07, after deducting partial reimbursement from the GMs. No parking space was provided for the ED as a car was provided by the HKTB.

Audit observations

4.48 The provision of parking spaces was not stated in the Employees' Handbook of the HKTB and Head Office staff employment contracts. In response to Audit's enquiry, the HKTB advised in July 2007 that this was a handed down practice, and such rental payments were approved by the DED. Audit considers that senior staff benefits should be approved by the Board.

Audit recommendation

4.49 **Audit has recommended that the HKTB should consider inviting the Board to approve the provision of parking spaces to its senior staff.**

Response from the HKTB

4.50 The **ED, HKTB** agrees with the audit recommendation. He has said that:

- (a) the HKTB management has already informed the Board in September 2007 that starting from October 2007, no parking spaces will be provided to senior staff without the prior approval of the Board; and
- (b) any benefit beyond the contractual provision or without the approval of the Board will not be provided to staff.

Staff recruitment

4.51 As stated in its Employees' Handbook, the HKTB aims to uphold the principles of hiring the best, rewarding for performance, developing talent, respecting privacy and promoting fairness. In January 2007, the HKTB issued a set of Human Resources Policies and Procedures (HRPP) governing all aspects of its staff recruitment.

Audit observations

4.52 Audit selected 15 recruitment cases during the period March 2006 to June 2007 for examination. The audit findings are reported in paragraphs 4.53 to 4.55 below.

Participation in staff interview before joining the HKTB

4.53 Audit noted that, in one of the cases examined, before the selected candidate reported for duty at the HKTB, she had taken part in the interview of another recruitment exercise because the successful candidate would be her subordinate. In response to Audit's enquiry, in September 2007 the HKTB said that while that would-be staff was designated by a Senior Manager to conduct the interview, she was not the only interviewer. Both the Senior Manager and a representative of the ITHR Department also separately interviewed the candidate. Audit considers that staff selection interviews should only be conducted by HKTB staff.

Panel interviews

4.54 In response to an assignment report of the ICAC in July 2006 concerning staff recruitment, the HKTB agreed that panel interviews (i.e. interview handled by a recruitment panel comprising more than one HKTB staff member) would be conducted as far as possible. Audit noted that in 11 of the 15 selected cases, only one HKTB staff member conducted the interviews. In response to Audit's enquiry, in September 2007 the HKTB said that both the representative of the ITHR Department and the line management were

involved in the recruitment process, with the representative of the ITHR Department as first interviewer and line managers as second and third interviewers. The recruitment would be a joint decision. Normally, panel interviews would be conducted for recruitment of Senior Managers and above. However, Audit noted that such requirement was not set out in the HRPP.

Shortlisting criteria for selecting candidates for interview

4.55 According to the HRPP, suitable candidates who have submitted their applications on or before the closing date will be considered for interview. Audit analysis of 15 selected cases found that for 4 cases, there was no record showing the number of applicants and the number of candidates shortlisted for interview. In response to Audit's enquiry, in September 2007 the HKTb said that the four cases were actually processed before the implementation of the log sheet system for recording such information. Audit noted that for the remaining eleven cases, the number of candidates shortlisted for interview ranged from 4 to 59 candidates. Details are shown in Table 9. In all of these cases, the shortlisting criteria were not documented.

Table 9
Number of candidates shortlisted for recruitment interviews

Job position	Number of vacancies	Number of applicants	Number of candidates shortlisted for interview
Manager, QTS, Marketing & Partnership Development	1	54	4 (7%)
Senior Clerk, Financial Management	1	14	4 (29%)
Manager, Marketing Communications	1	60	9 (15%)
Officer, Trade Marketing	1	182	10 (5%)
Executive, Office Administration	1	47	10 (21%)
Analyst Programmer	1	39	13 (33%)
Analyst Programmer	1	28	14 (50%)
Assistant Manager, Consumer Marketing & Communications	1	141	14 (10%)
Marketing Assistant, Partnership Development	1	83	17 (20%)
Officer, Visitor Services	4	164	34 (21%)
Marketing Assistant, Partnership Development	2	641	59 (9%)

Source: HKTB records

Audit recommendations

4.56 **Audit has recommended that the HKTB should:**

- (a) **ensure that staff selection interviews are only conducted by eligible staff;**
- (b) **specify in the HRPP the circumstances under which staff selection interviews would be conducted by recruitment panels; and**

- (c) ensure that the information about the number of applicants and candidates shortlisted for interview, and the shortlisting criteria, are documented.

Response from the HKTB

4.57 The **ED, HKTB** has noted the audit recommendations. He has said that:

- (a) the HKTB has always adopted an open and fair recruitment system, and all selection interviews are conducted by eligible staff of the HKTB. The case mentioned in paragraph 4.53 was a single, isolated incident. Where the would-be staff participated in the interview, she was not the only interviewer, and the final hiring decision was made by the Senior Manager and the ITHR Department;
- (b) the HKTB will specify in the HRPP that panel interview will be used for the recruitment of Senior Manager and above; and
- (c) the HKTB has already implemented a log sheet system since November 2006 to record the number of applicants and shortlisted candidates. As for the shortlisting criteria, the HKTB has all along conducted the screening of candidates based on the job requirements set out in the job advertisements and job descriptions. As a further measure, the management has started to document the shortlisting criteria as well for future recruitment cases.

PART 5: PROCUREMENT MATTERS

5.1 This PART examines procurement of goods and services by the HKTb and identifies room for improvement in the procurement process.

Procurement requirements

5.2 The HKTb's Financial Policies and Procedures (FPP) stipulate the following requirements on procurement:

- (a) ***Quotations and procurement approving authority.*** In general, the number of quotations/bids required to be obtained and the approving authority for procurement depend on the procurement value of goods or services. For example, three quotations are required to be obtained for procurements with value of up to \$200,000. For procurements with value of over \$200,000 and up to \$2 million, three sealed bids are required (more than three sealed bids are required if the value is over \$2 million). The procurement approving authority for the DED is up to \$500,000;
- (b) ***Tender board.*** For procurements with value of over \$2 million, a tender board should be formed to conduct tender evaluation. Its quorum is three members comprising the DED and/or GMs. Members of a tender board are required to declare interests before tender evaluation. Documentation of the tender board process, including minutes of tender board meetings, should be kept for audit purposes; and
- (c) ***Marking scheme for tender evaluation.*** For a contract in which the quality of goods or services to be obtained is critical, tenders are evaluated on the basis of quality and price by using a marking scheme (with a weighting of 60% to 80% used for the technical score and 20% to 40% for the price score). The tender board should approve the evaluation criteria and the marking scheme, including the weightings for technical and price score. For procurements with value of over \$2 million, the evaluation criteria and the outline of the marking scheme should be included in the tender document. For procurements involving evaluation of technical details, it is a best practice to request the tenderers to submit separate technical details and price proposals.

Audit observations

5.3 Based on examination of procurement records for 2005-06 and 2006-07, Audit noted two cases which illustrated areas for improvement relating to the HKTb's procurement process. The audit findings are given below.

Determination of relative weightings for technical and price assessments

5.4 Audit noted that in one case (Case A in Appendix D), the evaluation of tenders received (the contract value of which would exceed \$2 million) was based on a marking scheme with a weighting of **70%** for the technical score, and **30%** for the price score (see para. 5.2(c)).

5.5 The Government's Stores and Procurement Regulations set out the guidelines for adopting a marking scheme for tender evaluation. According to the guidelines, when determining the relative weightings for technical and price assessments, government departments should normally adopt a 30% to 40% weighting for technical score, as against a weighting of 60% to 70% for price score. Departments should note that a higher technical weighting would not necessarily ensure a higher quality of the service/product to be delivered by the successful supplier. Departments proposing a weighting higher than 30% to 40% for technical score should provide full justification in their submissions to the relevant tender boards. **Audit notes that the 60% to 80% weighting for technical score under the FPP is much higher than the normal weighting of 30% to 40% for technical score under the Government's guidelines.**

Additional work performed without prior approval

5.6 Audit noted that in one case (Case B), the HKTb entered into a contract with a contractor at a cost exceeding \$3 million. Subsequently, the responsible HKTb staff requested the contractor to carry out additional work. **However, prior approval was not obtained from the ED for the additional work.** Details of this case are at Appendix E.

Need for adopting open tendering for procurement

5.7 According to the FPP, the HKTb requires only the obtaining of quotations/bids for procurements. In comparison, the Government's guidelines stipulate that, normally, open tendering has to be adopted for procurements with value of over \$1.3 million. To strengthen procurement control, the HKTb needs to consider adopting open tendering for procurement with value exceeding a certain amount.

Need to ensure compliance with FPP requirements

5.8 **Separation of technical details and price proposals.** Audit noted one case (Case A in Appendix D) in which the HKTb did not follow the best practice of requesting tenderers to submit separate technical details and price proposals (in separate envelopes) as stated in its FPP (see para. 5.2 (c)).

Audit recommendations

5.9 **Audit has recommended that the HKTB should improve its procurement procedures. In particular, the HKTB should:**

- (a) **taking into account the Government's guidelines, consider:**
 - (i) **reviewing its marking scheme guidelines under the FPP, particularly the normal weightings for the technical score and the price score; and**
 - (ii) **adopting open tendering for procurement with value exceeding a certain amount;**
- (b) **obtain prior approval from the appropriate authority for contract variations and provide full justifications for making the variations; and**
- (c) **ensure that staff strictly comply with the procurement requirements laid down in the FPP. Where there is a need to make exceptions, the justifications should be documented and submitted for approval by the appropriate authority.**

Response from the HKTB

5.10 The **ED, HKTB** has said that the ICAC helped review the HKTB procurement procedures in 2003. As part of its ongoing effort to strive for improvement, the HKTB is planning to review the procedures and the ICAC will once again be invited to participate in the review by the end of this financial year. He has also said that:

- (a) the HKTB will review the procurement procedures, including the possibility of adopting open tendering for procurement with value exceeding a certain amount, and will give careful consideration to the relative weightings for technical and price assessments, making reference to practices adopted by the Government and other public organisations. Upon the completion of the review, the HKTB management will make recommendations to the Board;
- (b) all staff have been reminded to obtain prior approval from the appropriate authority for the projected aggregate amount arising from the contract variations and provide full justifications for making the variations; and
- (c) regular briefings on procurement matters and the FPP have been arranged for staff. The HKTB will continue to ensure staff's strict compliance with the procurement regulations and guidelines.

PART 6: OTHER ADMINISTRATIVE ISSUES

6.1 This PART reports the audit findings concerning other administrative issues of the HKTB.

Hong Kong Tourism Board's Financial Policies and Procedures

6.2 The HKTB sets out in its FPP the policy and controls governing various administrative issues, including entertainment and business travel.

Entertainment expenses

6.3 There are two main types of entertainment expenses, as follows:

- (a) *Entertainment expenses incurred in connection with marketing projects (hereinafter referred to as project-related entertainment expenses).* The HKTB keeps separate accounting records for various expenses of individual marketing projects. These entertainment expenses are charged to expenses for the marketing projects concerned; and
- (b) *Entertainment expenses not related to any marketing projects (hereinafter referred to as non-project-related entertainment expenses).* These are charged to hospitality expenses.

6.4 According to the FPP, HKTB staff may submit claims for reimbursement of entertainment expenses incurred during the course of duty. The FPP require that:

- (a) ***Cost-per-head spending limits should not be exceeded.*** Different spending limits are set for entertainment functions held in different countries. The spending limits for ordinary guests and VIP guests are also different. For example, the 2006-07 spending limits for entertaining ordinary guests in Hong Kong were, per person, \$260 for lunch and \$390 for dinner, while those for VIP guests were \$300 for lunch and \$460 for dinner. **Prior approval should be sought from a claimant's supervisor if it is likely that the spending limit would be exceeded;**
- (b) a claimant should submit the original bills and provide the following information:
 - (i) the name of the person entertained and his company, and the reason for classifying him as a VIP guest, if applicable;
 - (ii) the title and purpose of the entertainment function; and

- (iii) the total number of persons entertained;
- (c) claims should be submitted by the highest ranking staff among those staff attending the entertainment function and should be approved by a higher authority; and
- (d) claims submitted by Head Office staff should be approved by Managers and above depending on the amount of the claims. Claims submitted by staff of the WWOs should be approved by WWO Directors or Regional Directors (RDs) or the ED, depending on the ranking of the claimants.

6.5 The FPP requirements are also applicable to payments for entertainment expenses made directly by the HKTb to service providers. Before effecting reimbursement or payment for entertainment expenses, the Financial Management Department (FMD) of the HKTb will check that such reimbursements or payments are in compliance with the FPP requirements (see para. 6.4) and advise the ED and the DED of any exceptions for further action.

Audit observations

Need to improve recording and budgetary control

6.6 The HKTb sets annual budget for non-project-related entertainment expenses (about \$1 million in 2006-07) and keeps separate accounting records for these expenses. It does not set any annual budget for project-related entertainment expenses. Information about such expenses is not readily available as they are included in the marketing project expenses in which entertainment expenditures are not separately itemised. **As entertainment expense is a major type of sensitive expenditure (Note 17), Audit considers that the HKTb needs to improve recording and budgetary control of such expenses.**

Note 17: *According to a good practice guide issued by the Controller and Auditor-General of New Zealand in February 2007, sensitive expenditure is expenditure by a public entity that could be seen as giving some private benefit to an individual staff that is additional to the business benefit to the entity of the expenditure. Public entities need to pay due regard to the control and monitoring of sensitive expenditure.*

Need to ensure compliance with FPP requirements

6.7 **Cases exceeding spending limits.** Based on examination of payment vouchers for 2006-07, Audit noted four payments involved project-related entertainment expenses which had exceeded the cost-per-head spending limits stipulated in the FPP. The amount of excess for each payment ranged from about \$11,400 (Case C1) to \$60,300 (Case C2). Details are shown below in Table 10.

Table 10

Project-related entertainment expenses exceeding the cost-per-head spending limits (2006-07)

Case	Date	Total expenditure (a)	Number of participants (b)	Cost per head (c) = (a)/(b)	FPP spending limit (d)	Excess	
						(e) = (c)-(d)	(f) = (e)×(b)
						Per head	Total
C1	24/6/2006	\$41,800	66	\$633 (Notes 1 and 2)	\$460	\$173 (38%)	\$11,418
C2	7/9/2006	\$95,861	91	\$1,053 (Notes 1 and 3)	\$390	\$663 (170%)	\$60,333
C3	25/5/2006	\$69,938	120	\$583 (Notes 1 and 4)	\$360	\$223 (62%)	\$26,760
C4	24/10/2006	\$116,274	203	\$573 (Notes 1 and 5)	\$444	\$129 (29%)	\$26,187

Source: HKTB records

Note 1: After the event, the FMD raised queries for the excess.

Note 2: The function was a welcome dinner for guests from Europe, the Middle East, Australia and New Zealand. In July 2006 (i.e. about one month after the event), the ED granted covering approval for the excess.

Note 3: The function was a press conference and lucky draw dinner reception. In late January 2007 (i.e. about five months after the event), the ED granted covering approval for the excess.

Note 4: The function was a lunch held at a hotel in Seoul. The RD of the Korea WWO (a Representative Office at the time) granted covering approval for the excess.

Note 5: The function was the Korea WWO opening dinner reception held at a hotel in Seoul. The RD of the Korea WWO granted covering approval for the excess.

6.8 **Cases C1 to C4.** For Cases C1 to C4, covering approvals for the excesses were obtained. The justifications for granting covering approval in respect of the four cases were as follows:

- (a) **Case C1.** In response to the FMD's queries after the event, the responsible HKTB staff advised that the excess was due to champagne being served to guests upon their arrival at the restaurant so as to provide VIP treatment at the first official dinner;
- (b) **Case C2.** In response to the FMD's queries after the event, the responsible HKTB staff said that the payment sought was not purely the dinner cost for 91 persons, but included rental of venue. The estimated dinner cost was about \$73,360 (\$806 per person) and the room rental was \$22,500;
- (c) **Case C3.** In response to the FMD's queries after the event, the Korea WWO (a Representative Office at the time) obtained covering approval from its RD and explained that: "With the entertainment guideline budget, it is remarkably hard to run a luncheon or dinner seminar in hotels."; and
- (d) **Case C4.** In response to the FMD's queries after the event, the responsible staff of the Korea WWO explained that "the consumption of wine and liquor was much more than we expected." In giving covering approval for the excess, the RD concerned stated that "perhaps, in the beginning of the party the consumption of beer and wine should have been estimated and limited within our budget and should not have been served".

6.9 In response to Audit's enquiry, the HKTB informed Audit in September 2007 that the four cases mentioned in paragraphs 6.7 and 6.8 that involved food and beverage costs for projects and events were all related to brand building and image projection of Hong Kong, and should not be regarded as ordinary entertainment. For Cases C1, C2 and C4, the staff concerned sought prior verbal approval from the appropriate authority and submitted relevant documentation subsequently to explain the situation, as follows:

- (a) in **Case C1**, champagne was offered to the guests upon their ordering, noting that it was customary for the guests, who came from Europe, Australia and New Zealand, to have pre-dinner alcoholic drinks. The staff concerned sought prior verbal approval from the appropriate authority and submitted relevant documentation subsequently to explain the situation;
- (b) in **Case C2**, the dinner was for invited guests only. The staff concerned sought prior verbal approval from the appropriate authority and submitted relevant documentation subsequently to explain the situation;

- (c) for **Case C3**, the lunch was held in the same venue as a travel mart, which took place right after the luncheon and offered a platform for the Hong Kong and Korean travel-trade partners to build businesses, following networking during the lunch. In selecting the venue, consideration was given to the accessibility of the hotel, which was located in the city centre; and
- (d) in **Case C4**, the dinner was attended by top officials of the Korea tourism organisations, travel trade and media partners, who gathered to celebrate the opening of the HKTb's WWO in Seoul, which they believed demonstrated the importance attached to the Korean market. Prior verbal approval was sought from the respective authority on the amount, and justifications were included in relevant documentation submitted subsequently.

6.10 The excesses ranged from 29% to 170% for the four cases mentioned in paragraphs 6.7 to 6.9 above (Cases C1 to C4). Audit considers that the HKTb needs to ensure that staff obtain prior approval, as far as practicable, for excesses from the appropriate authority.

Expenses incurred for HKTb staff having a meal together

6.11 Up to September 2007, according to the FPP, for Head Office staff, under exceptional circumstances and subject to the approval of department head, when HKTb staff had a meal together (i.e. staff from one office visiting another office), they could submit claims under entertainment expenses. For WWO staff, they could also submit such claims. These claims were approved by the approving authority as stated in paragraph 6.4(d). The per diem allowances for meals under business travel were used as guidelines for approval (e.g. in 2006-07, the per diem allowances in Hong Kong were \$140 per person for lunch, and \$200 per person for dinner).

6.12 Audit noted one case in which the RD of the Tokyo WWO had hosted, during his business travel in Seoul, a dinner with six Korea WWO staff at a cost of \$1,932. The cost per participant (\$276) exceeded the meal per diem allowance (\$219). The justifications for the excess and the explanation for the exceptional circumstances for hosting the dinner were not documented. No approval was sought from the ED for the claim. In response to Audit's enquiry, the HKTb informed Audit in September 2007 that the staff concerned had paid the amount in excess of the meal per diem allowance.

6.13 As nearly all the HKTb's funding comes from public funds, Audit considers that the HKTb needs to review its arrangement for payment of entertainment expenses involving HKTb staff only.

Audit recommendations

6.14 **Audit has recommended that the HKTB should tighten its control on entertainment expenses. In particular, the HKTB should:**

- (a) **improve the control for project-related entertainment expenses;**
- (b) **maintain separate accounts for entertainment expenses to record the amounts incurred for budgetary control purpose;**
- (c) **ensure that staff observe the cost-per-head spending limits. In cases where the spending limits are exceeded, justifications should be documented and prior approval should be obtained from the appropriate authority; and**
- (d) **review the justifications for the payment of entertainment expenses involving HKTB staff only.**

Response from the HKTB

6.15 The **ED, HKTB** has noted the audit recommendations. He has said that many of HKTB's projects include hospitality elements, including the provision of food and beverage, which should not be regarded as pure business entertainment. These are intended to offer participants a taste or snapshots of Hong Kong's experiences, so as to impress upon them the city's attractions and encourage them to promote the city. In handling project-related entertainment expenses, the HKTB has always exercised stringent control to ensure that they are incurred only on a need basis. Guidelines and procedures are in place and staff are reminded from time to time to adhere to them. He has also said that:

- (a) it is considered more effective to introduce a new policy rather than setting an annual budget for all project-related entertainment expenses. The HKTB will effect a procedural change within this financial year to separate the food and beverage expenses of projects and events from ordinary entertainment expenses. Under the new policy, respective project owners will be required to estimate the budget for each activity under a project, food and beverage being one, and ensure that the activities are executed within the approved budget. The new policy will be submitted to the Staff and Finance Committee for approval by the fourth quarter of 2007;
- (b) separate accounts are already kept for non-project-related entertainment expenses. For project-related entertainment expenses, by working out the food and beverage budget for each project under the proposed new policy, the expenses incurred can also be accounted for;
- (c) for general entertainment, strict compliance will be enforced and staff have been reminded to observe the cost-per-head spending limit and to obtain prior

approval with written justifications for cases where it is foreseen that the spending limits will be exceeded. For project-related entertainment expenses, control will be exercised through the arrangement under the proposed new policy mentioned in sub-paragraph (a) above; and

- (d) HKTB staff are no longer allowed to claim for expenses on having meals together with effect from 1 October 2007. Previously, staff were allowed to claim for reimbursement of expenses on having meals together only if these were for business purposes, such as working lunches, whereas expenses on entertainment were strictly not allowed. There were also guidelines stipulating that staff on business travel had to pay for expenses that exceeded the meal per diem allowance.

Business travel expenses

6.16 Similar to entertainment expenses, there are two main types of business travel expenses. They are project-related travel expenses (incurred in connection with marketing projects and charged to expenses for the projects concerned) and non-project-related travel expenses (not related to any marketing projects and charged to overseas travelling expenses).

6.17 The FPP stipulate the following requirements for processing business travel requests:

- (a) ***Submission of Business Travel Request Form.*** Head Office staff are required to submit a Business Travel Request Form to seek approval for business travel outside Hong Kong and purchase of air tickets. Staff of the WWOs are required to submit a Business Travel Request Form to seek approval for business travel outside their region. The approving authority for the travel requests depends on the ranking of the officers making the requests (e.g. approval of the ED's business travel rests with the Chairman of the Board);
- (b) ***Travel by business class.*** Head Office staff of GMs and above are entitled to travel by business class for short-haul flights (i.e. flight time of nine hours or less) and long-haul flights while Senior Managers are entitled to travel by business class for long-haul flights. WWO Directors and RDs are entitled to travel by business class for short-haul flights and long-haul flights; and
- (c) ***Reimbursement claims for travelling expenses.*** After completion of a trip, HKTB staff may submit a Business Travel Expenses Report to claim reimbursement of the travelling expenses incurred. The approving authority for the reimbursement claims depends on the ranking of the claimants.

Audit observations

Need to improve recording and budgetary control

6.18 The HKTB sets an annual budget for non-project-related travel expenses (\$3.5 million in 2006-07) and keeps separate accounting records for these expenses. It does not set any annual budget to separately account for project-related travel expenses. Information about such expenses is not readily available as they are included in the expenses of the projects and there is no separate expenditure item. **As business travel expense is a major type of sensitive expenditure (see Note 17 in para. 6.6), the HKTB needs to improve its recording and budgetary control for the project-related travel expenses.**

Need to obtain prior approval for business travel

6.19 The FPP require HKTB staff to submit a Business Travel Request Form to seek approval for business travel. In June 2006, when approving a re-submitted travel request, the DED reminded staff that all trips should be approved before commencement. Details of this case are at Appendix F. Audit noted three cases in 2006-07 in which the staff concerned had commenced business travel before obtaining approval (see Note 2 in Appendix G).

Procurement of air tickets

6.20 According to the HKTB's Administration User Guide, air tickets for business travel of Head Office staff are required to be purchased from its two appointed travel agents and the HKTB will pay them directly. Audit noted seven cases in 2006-07 in which the air tickets had been purchased before approvals were obtained (see Appendix G). **Audit considers that the HKTB needs to ensure that air tickets are purchased only after approval is obtained.**

Travel by business class on short-haul flights

6.21 According to the FPP, HKTB Head Office staff of GMs and above are entitled to travel by business class for short-haul flights. At a meeting of the Staff and Finance Committee held in July 2006, a Committee member (the Commissioner for Tourism) pointed out that under the Government's practice, only officers on Directorate Pay Scale Point 4 (D4) and above are entitled to travel by business class. The HKTB's practice which allowed its GMs (whose salary was below that of a government D4 officer — Note 18) to travel by business class for short-haul flights was generous. As shown in

Note 18: *In 2006-07, the staff cost of government officers on Directorate Pay Scale D4 was about \$2.6 million a year. The staff cost of individual GMs (except one) was lower than the staff cost of a D4 officer.*

Table 11, Audit found two such business class short-haul flights in 2006-07. **In Audit's view, for the sake of economy, the HKTB needs to review its arrangement for staff to travel by business class for short-haul flights.**

Table 11

**Travel by staff at the rank of GM
by business class in short-haul flights in 2006-07**

Period of trip	Destination	Airfare (\$)
21/4/2006 to 25/4/2006	Thailand	5,290
8/5/2006 to 11/5/2006	Taiwan	5,543

Source: HKTB records

Audit recommendations

6.22 To demonstrate the prudent use of public money, Audit has *recommended* that the HKTB should ensure compliance by staff with the requirements laid down in the FPP. In particular, the HKTB should:

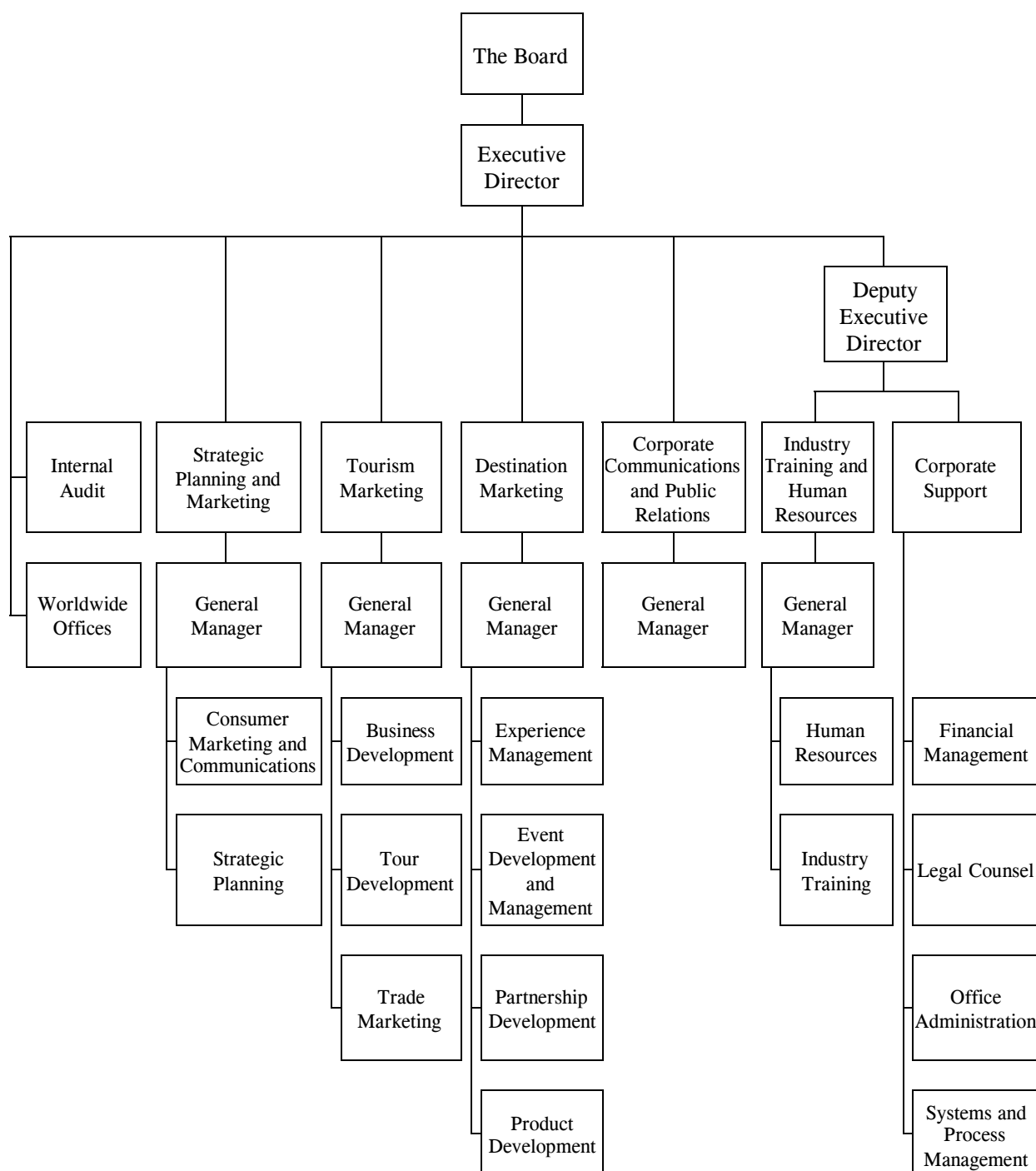
- (a) improve the control for project-related business travel expenses;
- (b) maintain separate accounts for business travel expenses to record the amounts incurred for budgetary control purpose;
- (c) ensure that staff comply with the FPP requirement of obtaining prior approval for business travel;
- (d) ensure that air tickets are procured only after approval is obtained; and
- (e) having regard to the practice of the Government, review the present arrangement for staff at the rank of GM (or equivalent) to travel by business class for overseas duty visits.

Response from the HKTB

6.23 The **ED, HKTB** has noted the audit recommendations. He has said that all the seven cases mentioned in paragraph 6.20 were duty travel with valid business reasons (see Note 1 in Appendix G). With the exception of the case mentioned in paragraph 6.19, prior verbal approval was obtained by the staff concerned before departure. Although invoices for the air tickets had been issued before obtaining formal approval of the Business Travel Request Forms, the air tickets could be cancelled if there was alteration to the travel itinerary. The invoices were issued with the intention of protecting the flight reservations. He has also said that:

- (a) it is considered more effective to introduce a new policy rather than setting an annual budget for all project-related business travel. Under the new policy, respective project owners will be required to estimate the budget for each activity under a project, business travel being one, for control purposes. The new policy will be submitted to the Staff and Finance Committee for approval by the fourth quarter of 2007;
- (b) separate accounts are already kept for non-project-related business travel expenses. For project-related business travel, by working out the business travel budget for each project under the proposed new policy, the expenses incurred can be accounted for;
- (c) HKTB staff who may be required to take up business travel have been reminded of strict compliance with the respective policy in the FPP and the requirement for prior approval for business travel;
- (d) the FPP will re-emphasise that flight reservation can only be confirmed after approval for the travel request has been obtained; and
- (e) regarding the audit recommendation in paragraph 6.22(e), the HKTB is conducting a benchmarking study with comparable organisations on this subject with a view to reissuing guidelines on business travel that will not be any more favourable than those adopted by comparable organisations.

**Hong Kong Tourism Board
Organisation chart (extract)
(30 June 2007)**



Source: HKTB records

**Key performance indicators in the
Hong Kong Tourism Board's Business Plan and Budget
(2005-06 to 2007-08)**

		2005		2006		2007
		Estimate	Actual	Estimate	Actual	Estimate
Arrivals						
1	Total arrivals	23,412,096	23,359,417	27,140,716	25,251,124	26,419,955
2	• Mainland	— (Note 1)	12,541,400	14,834,552	13,591,342	14,132,948
3	• Ex-Mainland	— (Note 1)	10,818,017	12,306,164	11,659,782	12,287,007
4	Vacation arrivals	6,909,245	7,438,938	8,680,187	8,250,348	8,627,222
5	Convention and Exhibition Events	258	260	288	296	296
6	Convention and Exhibition arrivals	511,000	543,000	677,000	709,625	710,904
Length of stay						
7	Average length of stay (nights)	3.7	3.7	3.8	3.5	3.5
8	• Mainland (nights)	— (Note 1)	4.2	4.3	3.9	3.9
9	• Ex-Mainland (nights)	— (Note 1)	3.0	3.0	3.0	3.0
Spending						
10	Overnight visitor per capita spending (PCS)	\$4,478	\$4,663	\$4,570	\$4,799	\$4,763
11	• Mainland overnight PCS	— (Note 1)	\$4,554	\$4,460	\$4,705	\$4,691
12	• Ex-Mainland overnight PCS	— (Note 1)	\$4,793	\$4,710	\$4,907	\$4,843
13	Same-day in-town visitor PCS	\$680	\$810	\$789	\$1,015	\$1,044
14	• Mainland same-day in-town PCS	— (Note 1)	\$1,247	\$1,217	\$1,537	\$1,587
15	• Ex-Mainland same-day in-town PCS	— (Note 1)	\$323	\$316	\$381	\$386

Appendix B
(Cont'd)
(paras. 3.2
and 4.32 refer)

		2005		2006		2007
		Estimate	Actual	Estimate	Actual	Estimate
Spending						
16	Destination consumption expenditure (\$ billion)	74.0	79.4	89.5	89.4	92.6
17	• Overnight visitor spending (\$ billion)	— (Note 1)	68.9	78.4	75.9	78.7
18	• Same-day in-town visitor spending (\$ billion)	— (Note 1)	6.9	7.9	9.6	10.3
19	• Other spending (cruise passengers, transit/transfer passengers) (\$ billion)	— (Note 1)	3.6	3.2	3.9	3.5
20	Passenger international transportation expenditure (\$ billion)	— (Note 2)	26.6	25.3	30.0	31.9
21	Tourism expenditure associated to inbound tourism (\$ billion)	97.8	106.0	114.7	119.4	124.4
Visitor satisfaction						
22	Overall satisfaction	7.7	8.0	8.0	8.0	8.0
23	Revisit intention	89 %	85 %	87 %	87 %	87 %
24	Recommendation to friends/relatives	91 %	93 %	93 %	94 %	94 %
25	Retail service	96 %	96 %	96 %	96 %	96 %
26	Shopping value for money	93 %	94 %	94 %	94 %	94 %

Source: HKTB records

Note 1: No breakdown was provided in the 2005-06 Business Plan and Budget.

Note 2: No KPI was set in the 2005-06 Business Plan and Budget.

**Summary of targets and performance indicators
used by other National Tourism Organisations**

VisitBritain (the UK's NTO)
Targets for 2005-06
<p><i>Return on Investment</i></p> <p>Generate additional spend of at least £887.5 million by overseas visitors, resulting from VisitBritain's marketing activity and an ROI of at least 30:1.</p>
<p><i>Regional spread</i></p> <p>Achieve at least 55% of the additional spend outside of London</p>
<p><i>Seasonal spread</i></p> <p>Achieve at least 36% of the additional spend between October and March</p>
<p><i>Customer service standards</i></p> <p>Overseas offices and the British and London Visitor Centre to achieve a customer contact standard score of at least 970 out of 1,200</p>
<p><i>Britain's image as a tourist destination</i></p> <p>Press and public relation activities to achieve an average evaluation score of at least 3.9 out of 5</p>
<p><i>Growth markets</i></p> <p>Transfer £1 million of funds into growth markets and work towards achieving an incremental spend of £70 million by 2007-08 from growth markets</p>
<p><i>Customer database</i></p> <p>Increase the number of qualified records to 6.3 million</p>
<p><i>Enquiries</i></p> <p>Increase the current 12 million visits to VisitBritain's websites</p>
<i>E-newsletter open rate</i>
<i>E-newsletter click through rate</i>
<i>Web enquiry conversion</i>

Tourism New Zealand (New Zealand's NTO)
Performance measures for the year ended 30 June 2006
<i>Prompted awareness of New Zealand as a travel destination</i>
<i>Preference to travel to New Zealand expressed as a ranking of New Zealand within a competitor set of country destinations</i>
<i>Intention to travel to New Zealand</i>
<i>Campaign reach and impact</i> Size of target audience, percentage reach and impact of viewing brand advertising in Australia, the USA and the UK
<i>Public relations</i> Size of circulation/audience reached through articles and items broadcast by those media hosted by Tourism New Zealand
<i>Events used to leverage the brand campaign</i>
<i>Convert intention to travel into actual arrivals</i> Total number of holiday arrivals to New Zealand
<i>Internet</i> Average number of unique users of its website per month Average number of page impressions per month on its website Percentage of its website users who rated the usefulness of the website as "very good"
<i>Trade training</i> Actual number of international travel sellers and product planners engaged with through trade training seminars, conferences, roadshows, online training modules and familiarisation visits
<i>Consumer research</i> Percentage of the Interactive Traveller very likely to recommend New Zealand as a holiday destination to others

Source: Annual reports of NTOs

Case A
Determination of relative weightings for technical and price assessments

1. Since 1994, the HKTA had outsourced the inventory management and distribution (local and overseas) services for its promotional materials and printed publications. It had outsourced the services to a contractor (Company A) since 1997. In late 2005, as the contract with Company A would expire in March 2006, the HKTb conducted a tender exercise for a new contract.
2. In October 2005, invitations for tenders were issued to six service providers. Five of them (including Company A) submitted tenders. The HKTb did not follow the best practice of requesting tenderers to submit separate technical details and price proposals (in separate envelopes) as stated in its FPP (see para. 5.2(c)). Each tenderer submitted his technical details and price proposal in the same envelope. A marking scheme with a weighting of 70% for the technical score and 30% for the price score was adopted to evaluate the tenders received (see para. 5.2(c)).

Audit comments

3. ***Audit considers that the HKTb needs to follow the best practice of requesting tenderers to submit separate technical details and price proposals as stated in its FPP.***

Source: HKTb records

Case B
Additional work performed without prior approval

1. In January 2006, the HKTB planned to stage a Temple Fair (a marketing activity for the Culture and Heritage Celebration) at the Central Ferry Piers from 20 April to 7 May 2006. It invited seven tenderers to submit tenders for performing the design, building and dismantling work to the venue for the Temple Fair. Six tenders were received. Three tenders did not meet the required performance standard and were not considered. The other three tenders met the required performance standard and were evaluated based on a marking scheme with weightings of 80% for the technical score and 20% for the price score. A tenderer (Company B) obtained the highest score (83.5) and its bid price was the lowest. In April 2006, the HKTB entered into a contract with Company B at a cost exceeding \$3 million.
2. After entering into the contract, the responsible HKTB staff requested Company B to carry out additional work to the venue for the Temple Fair. The additional work was completed in May 2006. Prior approval was not obtained from the ED for the additional work.
3. On 29 May 2006, in vetting the quotation for the additional work, the HKTB's Legal Counsel commented that, to protect the HKTB's interest, the quotation should have been signed before, and not after, the event. The responsible HKTB staff explained that the delay was due to the fact that the contractor could only submit the quotation after the event. The staff also said that:
 - (a) Company B was selected for the additional work since it was the contractor for the original work; and
 - (b) the additional work mainly involved structural reinforcement (requests made by government departments and landowners after the tender exercise), work needed for operational reason and enhancement work (e.g. raised platform for the stage area and additional lantern decoration).
4. On 9 June 2006, the DED reminded the officers concerned to ensure that quotations for all extra works (not specified in the contract) were vetted and approved prior to work commencement, and all extra works should be kept to a minimum and strictly on a need basis.
5. On 12 June 2006 (about one month after completion of the additional work), the ED approved the procurement for additional work from Company B. The HKTB accepted and signed Company B's quotation for this additional work at a cost of \$0.95 million.
6. In response to Audit's enquiry, the HKTB informed Audit in September 2007 that:
 - (a) the staff concerned had sought prior verbal approval from the appropriate authority each time additional work was required;

- (b) the majority of the additional works needed to be performed urgently and were unforeseen at the planning stage;
- (c) the staff concerned had sought verbal approval from the appropriate authority on individual contract variations. When considering the contract variations, the respective approving authority had examined the cost, methods, materials and work schedule;
- (d) the contractor was asked to submit a quotation for the various additional works conducted at different stages of the event. In doing so, the HKTb was actually able to negotiate with the contractor a better price. In fact, the staff managed to achieve a cost saving of \$126,160 or 12% from the original sum of \$1.076 million to \$0.95 million; and
- (e) the aggregate amount of the individual contract variations was submitted to the appropriate authority for approval.

Audit comments

- 7. Audit considers that significant contract variations need to be avoided as far as possible. HKTb staff need to obtain prior approval from the appropriate authority for contract variations and provide full justifications.***

Source: HKTb records

**A Hong Kong Tourism Board staff
did not obtain prior approval for an overseas trip**

1. A Manager of the HKTb submitted a request for a business trip to France and the UK from 16 to 24 May 2006. The purpose was to join a France market study in Paris and a UK market review in London. The travel request form, together with her application for leave from 25 to 30 May 2006, were submitted to the DED for approval before the trip. The DED did not approve the travel request.
2. Before the Manager's departure from Hong Kong, her leave application (approved by the DED) was returned to her supervisor (a Senior Manager). The Senior Manager's office then checked with the DED's office and was advised that the processed travel request form was on the way to the Manager. However, the Manager did not receive the processed request form even on the date of her departure from Hong Kong. As a result, she went on her trip assuming that her request was approved.
3. Upon her return, the Manager claimed that she had not received the rejected request form from the DED before her departure. In the event, she re-submitted a travel request form to seek the DED's approval for her trip, claiming reimbursement of expenses for her trip amounting to \$24,167.
4. In response to the DED's enquiry, the Senior Manager advised that she had asked the Manager to join the study in Paris and London. The Manager informed the Senior Manager that she had achieved a lot from the trip.
5. On 12 June 2006, the DED approved the re-submitted travel request form and stated that she had "no choice but to approve the trip" and all trips had to be approved before their commencement. On 16 June 2006, the HKTb reimbursed the Manager her trip expenses of \$24,167. It also paid to a travel agent her airfare of \$9,796.
6. In response to Audit's enquiry, the HKTb informed Audit in September 2007 that:
 - (a) both the staff who took the trip and the staff who approved the trip had already left the HKTb. The HKTb regretted the incident, and would continue to remind all staff of strict compliance with relevant policies and procedures;
 - (b) effort had been made by the Manager concerned to seek prior approval before commencing her business travel to join an overseas market study in Paris and London. Considering that the trip would be useful to her work, the Manager submitted her travel request form for approval in accordance with the FPP;
 - (c) in addition to the market study, the Manager also arranged various meetings with her counterparts in WWOs and other public relations partners to discuss future plans and activities; and

(d) upon her return, the Manager reported the results of her meetings to her supervisor and shared the upcoming plans with members of her team.

Audit comments

- 7. Audit considers that the Manager should have obtained prior approval before commencement of this trip. The HKTB needs to ensure that staff comply with the FPP requirement of obtaining approval before they start their business travel.***

Source: HKTB records

**Air tickets purchased before obtaining approval for business travel
(2006-07)**

Case	Duration of trip	Staff rank	Destination	Date of invoice	Approval date of business travel request	Airfare (\$)
D1	14/5/06 — 17/5/06	ED	Mainland	11/5/06	12/5/06 (Note 1(a))	5,050
D2	16/5/06 — 30/5/06	Manager	France and UK	24/5/06	12/6/06 (Note 1(b))	9,796
D3	22/5/06 — 24/5/06	ED	USA	19/5/06	23/5/06 (Notes 1(c) and 2)	42,555
D4	29/5/06 — 30/5/06	ED	Australia	26/5/06	29/5/06 (Note 1(d))	26,407
D5	23/9/06 — 1/10/06	GM	USA	20/9/06	25/9/06 (Notes 1(e) and 2)	47,150
D6	12/12/06 — 14/12/06	ED	Mainland	11/12/06	15/12/06 (Notes 1(f) and 2)	4,527
D7	19/1/07 — 21/1/07	ED	Mainland	10/1/07	16/1/07 (Note 1(g))	6,000

Source: HKTB records

Note 1: In response to Audit's enquiry, the HKTB informed Audit in September 2007 that the cases were all duty travel with valid business reasons, as detailed below:

- (a) **Case D1.** The ED was invited to join the Government's delegation to promote Hong Kong, and the confirmed delegation list was released on 8 May 2006;
- (b) **Case D2.** The Manager participated in a market study and submitted the travel request form to the respective authority for endorsement and approval prior to commencement of travel (para. 6 of Appendix F);
- (c) **Case D3.** The ED was invited to deliver a presentation to the Association of Travel Marketing Executives 2006 Travel Marketing Conference in Las Vegas, and her participation was listed in the Conference's programme brochure well in advance;

Appendix G
(Cont'd)
(paras. 6.19, 6.20
and 6.23 refer)

- (d) **Case D4.** *The ED hosted a mega event organised by the HKTb in Australia, which was attended by senior officials of the Government, member of the Legislative Council of New South Wales, as well as other dignitaries and key trade partners in Australia;*
- (e) **Case D5.** *The GM participated in the Incentive Travel and Meeting Executives Show in Chicago, USA, which was one of the world's largest exhibition of incentive and motivational products and services attracting key decision makers from a range of corporate organisations;*
- (f) **Case D6.** *The ED was invited by the Hainan provincial tourism bureau to visit the province, during which discussion was made on cooperation to develop multi-destination itineraries featuring the two destinations; and*
- (g) **Case D7.** *The ED was invited to join the Government's delegation to Jiangxi led by the Chief Executive. The HKTb submitted an application form and paid the participation fee on 10 January 2007.*

Note 2: The staff commenced business travel before obtaining approval.

Acronyms and abbreviations

Audit	Audit Commission
COR	Controlling Officer's Report
DED	Deputy Executive Director
ED	Executive Director
EDLB	Economic Development and Labour Bureau
FMD	Financial Management Department
FPP	Financial Policies and Procedures
GM	General Manager
HKICPA	Hong Kong Institute of Certified Public Accountants
HKTA	Hong Kong Tourist Association
HKTB	Hong Kong Tourism Board
HRPP	Human Resources Policies and Procedures
ICAC	Independent Commission Against Corruption
ITHR	Industry Training and Human Resources
KPI	Key performance indicator
KSF	Key strategic focus
LegCo	Legislative Council
NTO	National Tourism Organisation
PCS	Per capita spending
QTS	Quality Tourism Services
RD	Regional Director
ROI	Return on investment
RRC	Remuneration Review Committee
TC	Tourism Commission
UNWTO	World Tourism Organisation of the United Nations
WWO	Worldwide Office