

# Report No. 49 of the Director of Audit — Chapter 5

## HONG KONG TOURISM BOARD: CORPORATE GOVERNANCE AND ADMINISTRATIVE ISSUES

### Summary

1. 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. According to the audited accounts of the HKTB for 2005-06, its income (comprising government subvention of \$683 million and other revenue of \$42 million) was \$725 million and its expenditure was \$724 million.

2. *Audit review.* 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, namely: (a) HKTB: Corporate governance and administrative issues (Chapter 5 of the Director of Audit's Report No. 49 and the subject matter of this summary); and (b) HKTB: Planning, execution and evaluation of marketing activities (Chapter 6 of the Director of Audit's Report No. 49).

#### Corporate governance

3. *HKTB's planning framework.* According to good practices, two planning systems are used by most National Tourism Organisations (NTOs), namely strategic planning for the long term and operational planning for the shorter term. The long-term strategic planning enables an NTO to plan ahead with a greater degree of certainty. The HKTB included a road map for three years in the annual Business Plan and Budget for the years 2004-05 to 2006-07, but it was not updated in 2007-08. *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.*

4. **Approval of Business Plan and Budget.** According to section 17B(1) of the HKTB Ordinance, the HKTB is required to forward, before a date appointed by the Government, the draft Business Plan and Budget to the Government for approval. 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. Except for the 2003-04 Business Plan and Budget, the other five business plans and budgets were approved by the Government after the commencement of the relevant financial years, with the longest elapsed time of 173 days for the 2005-06 Business Plan and Budget. *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 approval; and (b) lay down arrangements for the approval of the HKTB's Business Plan and Budget before the commencement date of the relevant financial year.*

5. **Membership of the Committees.** The Board has established four Committees to oversee various aspects of the HKTB's operations. The senior management of the HKTB (i.e. the Executive Director (ED)/Deputy Executive Director (DED)) were members of all the four Committees. In 2005, the role of the HKTB management in two Committees was changed from "Member" to "In attendance". However, as of July 2007, the ED and the DED were still members of two other Committees. *To avoid potential conflict of interest, Audit has recommended that the HKTB should review the arrangement of appointing its senior management as members of the Committees.*

6. **Attendance at Board/Committee meetings.** Audit found that the attendance of some Board members at Board/Committee meetings held from 2001-02 to 2006-07 was low. For example, one member was absent continuously for 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. *Audit has recommended that the HKTB should monitor and take action to improve the attendance of members at Board/Committee meetings. Audit has also recommended that the Administration should take into account the attendance of members at Board/Committee meetings in considering their reappointment.*

7. **Proceedings of Board meetings.** Audit noted that the information manual for Board members, which set out the proceedings of Board meetings, had not yet been approved by the Board up to August 2007. 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 has recommended that the HKTB should formalise the rules and procedures for the proceedings at HKTB Board meetings, and consider revising the quorum of a HKTB Board meeting.*

8. ***Minutes of Board/Committee meetings.*** Audit examination of the minutes of all the 50 Board/Committee meetings held from 2005-06 to 2006-07 revealed that the HKTB generally took a long time to issue the draft minutes. For example, the time taken to issue the draft minutes for Board meetings ranged from 27 to 77 days, with an average of 48 days. *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.*

9. ***Management of conflict of interest.*** Audit examination of the declaration of interest forms submitted by Board members for the period 2001-02 to 2006-07 revealed that a member did not submit his declaration of interest forms from 2001-02 to 2006-07. Two other members did not do so for 2003-04. *Audit has recommended that the HKTB should take action to ensure that declaration of interest forms are signed and submitted by all Board members.*

### **Performance measurement and reporting**

10. ***Performance measures to evaluate overall performance.*** 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. Audit notes that these four KPI groups measure the tourism industry's performance. They do not directly measure the HKTB's performance in its marketing activities. *Audit has recommended that the HKTB should consider enhancing its performance measures in the annual Business Plan and Budget, making reference to good practices and performance measures adopted by leading NTOs.*

11. ***Performance measures in the HKTB's annual report.*** Audit noted that the HKTB did not set out performance measures (targets and indicators) in its annual reports during the years 2001-02 to 2005-06. *Audit has recommended that the HKTB should improve the reporting of performance measures by publishing the laid-down performance measures in its annual report.*

12. ***Tabling of annual report.*** Audit found that the HKTB's annual reports for 2001-02 to 2005-06 were tabled in the Legislative Council (LegCo) about one year after their year end dates (i.e. ranging from 160 to 217 days after the accounts had been certified by the auditor). *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.*

### **Remuneration and recruitment**

13. ***Head Office staff whose salary exceeded salary range maximum.*** The HKTB commissioned a consultant to conduct a remuneration study of its Head Office staff in

comparison with the market level. The study, which was completed in September 2003, found that there were 11 staff whose salaries were higher than 125% of the market median. In May 2004, the Board decided to adjust the salary ranges of HKTB staff to the market level. As at April 2007, Audit noted that: (a) 5 of the 11 Head Office staff still received a salary higher than the maximum of their respective salary ranges; and (b) another two Head Office staff received a salary exceeding the salary range maximum due to a salary increment in 2007-08. *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.*

14. ***Thirteenth month pay.*** All Head Office staff of Senior Manager and below are entitled to a 13th month pay. The 2003 consultancy study recommended that the HKTB should replace the 13th month pay by a performance-based variable payment. In May 2004, the Board gave its approval to implement the recommendation, with effect from April 2005. Since the proposed arrangement would affect the guaranteed contractual annual earnings of the staff, the staff side was not supportive. Up to June 2007, such an arrangement had not been introduced. *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.*

15. ***Contract terms of the ED not fully covered by the Financial Secretary's approval.*** Audit noted that on 18 March 2004, the Financial Secretary, based on the Tourism Commission's advice, approved the reappointment of the ED for a three-year period starting 19 March 2004. In the employment contract, there was an annual salary adjustment clause. The Commissioner for Tourism, as a member of the Staff and Finance Committee, became aware of this clause in February 2006, and 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. Also, 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. Audit considers that the HKTB should have incorporated the executive medical plan into the ED's employment contract for the Financial Secretary's approval. *Audit has recommended that the HKTB should ensure that all the terms and conditions of employment are incorporated into the employment contracts for approval by the appropriate authority.*

16. ***Performance-based variable payments to senior staff.*** All HKTB senior staff (i.e. the ED, the DED and General Managers (GMs)) are entitled to a performance-based variable payment. During 2004-05, 2005-06 and 2006-07, the performance-based variable payments awarded to them averaged about \$1.43 million a year. Under the contracts of the senior staff, the award of performance-based variable payments to them 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. *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.*

17. ***Staff recruitment.*** Audit examination of 15 selected recruitment cases during the period March 2006 to June 2007 revealed that: (a) in one case, before the selected candidate reported for duty at the HKTB, she had taken part in the interview of another recruitment exercise; (b) in 11 cases, only one HKTB staff member conducted the interviews (i.e. panel interviews not conducted); (c) in 4 cases, there was no record showing the number of applicants and the number of candidates shortlisted for interview; and (d) in 11 cases, the shortlisting criteria were not documented. *Audit has recommended that the HKTB should: (a) ensure that staff selection interviews are only conducted by eligible staff; (b) specify 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.*

#### **Procurement matters**

18. ***Determination of relative weightings for technical and price assessments.*** According to the HKTB's Financial Policies and Procedures (FPP), 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). 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. *Audit has recommended that the HKTB should, taking into account the Government's guidelines, consider reviewing its marking scheme guidelines under the FPP, particularly the normal weightings for the technical score and the price score.*

19. ***Additional work performed without prior approval.*** Based on an examination of procurement records for 2005-06 and 2006-07, Audit noted that in one case, 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. *Audit has recommended that the HKTB should obtain prior approval from the appropriate authority for contract variations and provide full justifications for making the variations.*

## **Other administrative issues**

20. ***Entertainment expenses.*** There are two main types of entertainment expenses, namely entertainment expenses incurred in connection with marketing projects (project-related entertainment expenses) and entertainment expenses not related to any marketing projects (non-project-related entertainment expenses). The HKTB sets annual budget for non-project-related entertainment expenses and keeps separate accounting records for these expenses. It does not set any annual budget for project-related entertainment expenses. Based on an examination of the 2006-07 payment vouchers, 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 to \$60,300 (i.e. 29% to 170% in excess of the spending limits). *Audit has recommended that 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; and (c) ensure that staff observe the cost-per-head spending limits.*

21. ***Business travel expenses.*** Similar to entertainment expenses, there are two main types of business travel expenses, namely project-related travel expenses and non-project-related travel expenses. The FPP stipulate the requirements for processing business travel requests. The HKTB sets an annual budget for non-project-related travel expenses and keeps separate accounting records for these expenses. It does not set any annual budget to separately account for project-related travel expenses. Audit noted: (a) three cases in 2006-07 in which the staff concerned had commenced business travel before obtaining approval; and (b) seven cases in 2006-07 in which the air tickets had been purchased before approvals were obtained. *Audit has recommended that 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; and (d) ensure that air tickets are procured only after approval is obtained.*

## **Response from the HKTB and the Administration**

22. The ED, HKTB has said that the HKTB will make the best endeavour to address the issues requiring follow-up actions. The Secretary for Commerce and Economic Development generally agrees with the audit recommendations addressed to him.

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