

CHAPTER 7

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

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

**Audit Commission
Hong Kong
28 October 2020**

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. 75 of the Director of Audit contains 10 Chapters which are available on our website at <https://www.aud.gov.hk>

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HONG KONG TOURISM BOARD: CORPORATE GOVERNANCE AND ADMINISTRATIVE ISSUES

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HONG KONG TOURISM BOARD: CORPORATE GOVERNANCE AND ADMINISTRATIVE ISSUES

Executive Summary

1. The Hong Kong Tourism Board (HKTB) is a government-subvented body established in April 2001 under the HKTB Ordinance (Cap. 302). The primary responsibilities of HKTB are to market and promote Hong Kong as a destination worldwide, and to take initiatives to enhance visitors' experience when they arrive. The Board is the governing body of HKTB. The Board has appointed five Committees to oversee various aspects of HKTB's operations. As at 31 March 2020, HKTB had an establishment of 379 staff. The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) is the Controlling Officer of the subvention granted to HKTB. In 2019-20, HKTB had a total income of \$869.3 million, which included government subvention of \$834.6 million. In the same year, HKTB had a total expenditure of \$865.2 million.

2. According to HKTB, since mid-2019, the social unrest in Hong Kong has brought about a negative impact on the performance of the tourism industry. Since January 2020, the outbreak of the coronavirus disease (COVID-19) has hard hit the tourism industry of Hong Kong and the world as a whole. In the period from January to August 2020, the number of visitor arrivals to Hong Kong was about 3.5 million, representing a drop of about 92% as compared to the same period in 2019. The Audit Commission (Audit) has recently conducted a review of HKTB. The findings are contained in this Audit Report and another one entitled "Hong Kong Tourism Board: Efforts in promoting tourism" (Chapter 8 of the Director of Audit's Report No. 75). This Audit Report reviews matters relating to the governance and administrative issues of HKTB.

Corporate governance

3. *Need to appoint Chairmen/members of Committees in a timely manner.* There are five Committees under the Board. In the period from 2015-16 to 2019-20, there were delays in the appointment of six Industry members and the re-appointment of three Industry members of the Quality Tourism Services Committee. The average

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period of vacancy of membership was four months, ranging from two to eight months. In 2019, upon the retirement of the Chairman of the Audit Committee on 31 March, the proposed appointment of the new Chairman was not circulated to Board members for approval until 2 July and the new Chairman was appointed with effect from 9 July (i.e. more than 3 months after the end of the term of the last Chairman) (paras. 2.2 and 2.4).

4. ***Need to appoint more young people to the Board.*** In 2017, the Chief Executive of the Hong Kong Special Administrative Region announced that the Government would appoint more young people to various government boards and committees with the aim of increasing the overall ratio of youth members (i.e. persons who are aged between 18 and 35) to 15% within the current-term Government. As at August 2020, none of the 19 non-official Board members were aged between 18 and 35. Audit noted that in the period from the announcement of the 2017 Policy Address in October 2017 to August 2020, there were 12 new Board members appointed. Only one (8%) of them was aged between 18 and 35 at the time of appointment (paras. 2.6 and 2.7).

5. ***Late issue of minutes of Board/Committee meetings.*** According to HKTb's guidelines, draft minutes of Board/Committee meetings would be circulated to members within three weeks of the meetings. Of the 126 draft minutes of Board/Committee meetings conducted in the period from 2015-16 to 2019-20, 41 (33%) were not issued within three weeks after the meetings. The delays ranged from 1 to 42 days, averaging 11 days (paras. 2.8 and 2.9).

6. ***Need to improve handling of declaration of interest in meetings.*** The Code of Conduct for Board Members issued by HKTb did not provide guidelines on the circumstances where the member who has declarable interest in the matter under consideration may speak or vote on the matter, may remain in the meeting as an observer, or should withdraw from the meeting. Declarations of interest were made by the Chairmen and some members in 17 of the 126 meetings held in the period from 2015-16 to 2019-20. In 2 (12%) meetings, the decisions on handling conflict of interest were documented in the meeting minutes, but the rationales behind the decisions were not documented. In 5 (29%) meetings, the decisions on handling conflict of interest and the rationales behind the decisions were not documented in the minutes. In the remaining 10 (59%) meetings, there was no documentary evidence showing that there had been decisions made on handling conflict of interest (paras. 2.10 and 2.12).

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7. ***Late submission of declaration of interest forms.*** Audit examined the 16 declaration of interest forms for first appointment and the 95 annual declaration of interest forms submitted by Board members in the period from 2016 to 2020 (up to April 2020). Audit found that 4 (25%) declaration of interest forms for first appointment and 17 (18%) annual declaration of interest forms were submitted after the required submission dates. The delays ranged from 1 to 78 days, averaging 17 days. Audit noted that Board papers had been circulated to 3 newly appointed members before their submission of declaration of interest forms (paras. 2.14 and 2.15).

8. ***Need to enter into a Memorandum of Administrative Arrangements (MAA) with HKTb.*** According to Financial Circular No. 9/2004 “Guidelines on the Management and Control of Government Funding for Subvented Organisations” issued by the Secretary for Financial Services and the Treasury, Directors of Bureaux or the Controlling Officers should preferably enter into an MAA or a similar instrument with each organisation receiving recurrent funding from the Government under their purview. Such instruments should set out the responsibilities of all parties in the delivery and monitoring of government-funded services and capital projects. However, the Government and HKTb have not entered into an MAA since the establishment of HKTb in April 2001 (para. 2.21).

9. ***Room for improvement in handling unspent additional funding.*** Government subvention to HKTb comprises recurrent subvention in the form of baseline subvention and additional funding to support HKTb in implementing specific promotional activities. In the period from 2016-17 to 2019-20, HKTb had unspent additional funding ranging from \$13.8 million to \$270.2 million. The Commerce and Economic Development Bureau (CEDB) approved HKTb to rollover the unspent additional funding for the period from 2016-17 to 2018-19. The unspent additional funding of \$270.2 million for 2019-20 would be returned to the Government. Audit considers that CEDB needs to set up a mechanism of handling unspent additional funding (paras. 2.25, 2.27 and 2.28).

10. ***Need to improve the reporting of key performance indicators (KPIs) and business performance indicators (BPIs).*** HKTb uses KPIs to measure the performance of the tourism industry and BPIs to measure the performance relating to each of the strategic focuses of HKTb. While HKTb reported the actual results for the KPIs in its annual report, the related targets were not reported in the annual report. Moreover, the targets and the actual results for the BPIs under each strategic focus were not reported to the Board (paras. 2.31, 2.32 and 2.35).

Human resource management and other administrative issues

11. *Need to conduct pay structure review in a more timely manner.* HKTB commissioned consultants to carry out pay structure reviews for Head Office (HO) staff in 2003, 2011, 2016 and 2017, and Worldwide Office (WWO) staff in 2006 and 2018. The results of the pay structure reviews conducted in 2017 (for HO staff) and 2018 (for WWO staff) indicated that the mid-points of 5 of the 18 job levels' salary ranges of HO staff were outside the acceptable deviance range (i.e. 85% to 115% of the market median), and 8 (53%) of the 15 WWOs had one or more job levels with mid-points of the salary ranges outside the acceptable deviance range. Of the 84 job levels of the 8 WWOs, 33 (39%) were outside the acceptable deviance range. Audit noted that in the past 20 years, HKTB carried out pay structure reviews only four times for HO staff and twice for WWO staff (paras. 3.4 and 3.6 to 3.8).

12. *Need to submit reports on remuneration review for senior staff to CEDB regularly.* According to Circular Memorandum No. 2/2003 issued by the Director of Administration, subvented bodies which receive more than 50% of their operating income from the Government should review the number, ranking and remuneration of staff at their top three tiers (the remuneration review) and submit to their relevant Director(s) of Bureau(x) reports on the review findings annually. In August 2018, the Director of Administration issued another Circular Memorandum to supersede the Circular Memorandum No. 2/2003, with salient requirements remained unchanged. The required frequency of submission of the review reports was revised from "annually" to "regularly". However, since its establishment in 2001, HKTB had not conducted any remuneration reviews and therefore had not submitted any reports on review findings to CEDB (paras. 3.9 and 3.10).

13. *Need to improve the conduct and documentation of recruitment exercises.* According to HKTB's Human Resources Policies and Procedures, for the recruitment of General Manager/Regional Director positions, each interviewer is required to complete a Declaration of Conflict of Interest Form and an Interview Assessment Form. Six recruitment exercises for General Manager/Regional Director positions were conducted in the period from 2013-14 to 2019-20. In 1 (17%) recruitment exercise, 2 of the 5 interviewers only signed blank Declaration of Conflict of Interest Forms without indicating whether they had relationship with the candidate. In 4 (67%) recruitment exercises, some interviewers had left blank the assessments on the five aspects of the candidates on the Interview Assessment Forms (paras. 3.14 and 3.15).

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14. ***Need to strengthen controls on hotel accommodation claims.*** HKTB staff who is on duty travelling outside Hong Kong may claim subsistence allowance. With prior approval, a staff may claim an allowance at an enhanced rate. Audit examined 16 subsistence allowance claims in the period from 2015-16 to 2019-20 and noted that enhanced rates of subsistence allowance were granted for 10 (63%) claims. For 2 claims, the justifications given were “the hotel is within walking distance to the venue and it is the best offer among the comparative quotes”. However, no information relating to the comparative quotes was provided to support the claims. For 1 claim, the justification given was that the selected hotel was the cheaper of two hotels. However, Audit noted that there were other hotels nearby, but information was not provided on the reasons why these hotels were not considered (paras. 3.23 and 3.24).

15. ***Room for improvement in managing fixed assets.*** Audit found that: (a) during the period from 2015-16 to 2019-20, the fixed assets checking lists of 6 (18%) of the 33 departments in HO had not been selected for checking by the reviewers from the Finance Department; and (b) in September and October 2017, HKTB found that 30 items of portable electronic equipment of two user departments could not be located. The two user departments had not completed the Fixed Assets Loss Forms within the two-week time limit set out in the Fixed Assets Management Procedures (para. 3.27).

Worldwide Offices and Representative Offices

16. ***Need to review regularly the establishment of WWOs and Representative Offices (ROs).*** In 2009, the Board approved a set of guidelines on criteria for setting up new and retaining existing WWOs/ROs, and decided that HKTB should conduct review on WWOs/ROs and their geographical coverage according to these guidelines once every two years. Audit noted that from 2009 to 2018, despite the changes in the market conditions, the number and geographical coverage of WWOs remained generally unchanged. There was no documentary evidence showing that HKTB had conducted review every two years on WWOs/ROs according to the guidelines approved by the Board in 2009 (paras. 4.4 and 4.7).

17. ***Room for improvement in accommodation arrangements.*** The 15 WWOs operate in leased premises. Audit found room for improvement in the accommodation arrangements of the WWOs (para. 4.10):

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- (a) some quotations for lease renewal of WWOs submitted to the Staff and Finance Committee were not within the scope of the intended renewal (para. 4.10(a));
 - (b) the committed lease period for the WWOs in Los Angeles and New York was long. For the WWO in Los Angeles, the break clause of the lease only allowed HKTb to terminate the lease after leasing for seven years. Moreover, the 10-year lease of the New York WWO was inflexible because the break clause in the lease would only be exercisable if HKTb closed the New York WWO. In March 2020, the staff establishment of the New York WWO was downsized to two staff. As the lease entered would not end until May 2026 (unless the New York WWO is closed), the office space cannot be rationalised for a considerable period of time (para. 4.10(b)); and
 - (c) HKTb had not promulgated guidelines on the accommodation arrangements (e.g. the area and grade of the office accommodations of WWOs). The area of offices for WWO staff varied significantly among WWOs, ranging from 15.67 square metres per staff in Guangzhou to 65.31 square metres per staff in New York (para. 4.10(c)).
18. ***Need to encourage the use of video conferencing for conducting business planning meetings.*** In 2018-19, the travelling expenses for the Regional Directors and Directors of WWOs to attend the business planning meetings in Hong Kong amounted to \$1.7 million. Given the uncertainty as to when the COVID-19 outbreak will end and HKTb's successful experience of conducting business planning meetings through video conferencing, HKTb needs to encourage staff to adopt such mode of meeting as far as practicable with a view to reducing the needs and related expenses for travelling back to Hong Kong for attending meetings (paras. 4.15 and 4.18).

Audit recommendations

19. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Executive Director, HKTb should:**

Corporate governance

- (a) **ensure that the Chairmen and members of the Committees are appointed in a timely manner (para. 2.18(a));**

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- (b) ensure that the draft minutes of Board/Committee meetings are circulated to members in accordance with HKTB's guidelines (para. 2.18(b));
- (c) document the decisions and the rationales on the mitigating measures relating to declared interest (para. 2.18(c));
- (d) enhance the guidelines in the Code of Conduct with a view to providing guiding principles on the circumstances where the Chairmen/members declaring their interest may remain in the meeting, and speak and/or vote in the meeting (para. 2.18(d));
- (e) ensure that Board members submit declaration of interest forms in a timely manner and refrain from distributing papers to newly appointed Board members until their declaration forms have been received (para. 2.18(e) and (f));
- (f) enhance HKTB's performance reporting (para. 2.36(b));

Human resource management and other administrative issues

- (g) ensure that the pay structure review is conducted in a more timely manner (para. 3.12(a));
- (h) review the number, ranking and remuneration of staff at the top three tiers and submit to CEDB reports on the review findings (para. 3.12(b));
- (i) ensure that recruitment exercises are conducted and properly documented in accordance with HKTB's Human Resources Policies and Procedures (para. 3.21(a));
- (j) ensure that detailed information is given to support claims for enhanced rates of subsistence allowance (para. 3.32(a));
- (k) ensure that fixed assets are kept under proper custody to guard against damage or loss and take prompt and thorough follow-up actions for each case of loss (para. 3.32(b));

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WWOs and ROs

- (l) review every two years the need to set up new WWOs/ROs and whether existing WWOs/ROs should be retained according to HKTB's guidelines (para. 4.8);
 - (m) promulgate guidelines on the accommodation arrangements (e.g. the area and grade of office accommodations) of WWOs (para. 4.19(a)); and
 - (n) encourage staff to use video conferencing for conducting business planning meetings as far as practicable (para. 4.19(c)).
20. Audit has *recommended* that the Secretary for Commerce and Economic Development should:
- (a) step up efforts to appoint more young people to the Board (para. 2.17);
 - (b) enter into an MAA with HKTB (para. 2.23); and
 - (c) set up a mechanism of handling unspent additional funding (para. 2.29).

Response from the Hong Kong Tourism Board and the Government

21. The Executive Director, HKTB appreciates the effort made by Audit in conducting this review. He has said that HKTB takes very seriously the recommendations in the two Audit Reports and has carried out significant follow-up actions.

22. The Secretary for Commerce and Economic Development agrees with the audit recommendations.

PART 1: INTRODUCTION

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

Background

1.2 Tourism is one of the four key industries in Hong Kong (Note 1). According to the Census and Statistics Department, in 2018, the tourism industry accounted for about 4.5% of Hong Kong's Gross Domestic Product and employed around 257,000 people, or about 6.6% of the total employment.

1.3 The Hong Kong Tourism Board (HKTB) is a government-subvented body established in April 2001 under the HKTB Ordinance (Cap. 302) by reconstituting from the then Hong Kong Tourist Association (HKTA – Note 2). According to the HKTB Ordinance, the objects of HKTB are:

- (a) to endeavour to increase the contribution of tourism to Hong Kong;
- (b) to promote Hong Kong globally as a leading international city in Asia and a world class tourist destination;
- (c) to promote the improvement of facilities for visitors;
- (d) to support the Government in promoting to the community the importance of tourism;

Note 1: *The four key industries are trading and logistics, financial services, professional services and other producer services, and tourism. In 2018, they accounted for 21.2%, 19.8%, 11.9% and 4.5% of Hong Kong's Gross Domestic Product respectively.*

Note 2: *HKTA was set up as a membership organisation in 1957. Subsequent to the completion of the Strategic Organisation Review in 1999, the Board of Management of HKTA decided to abolish the membership system of HKTA and reconstitute it into HKTB. The HKTB Ordinance was enacted in March 2001 to effect these changes.*

Introduction

- (e) to support, as appropriate, the activities of persons providing services for visitors to Hong Kong; and
- (f) to make recommendations to and advise the Chief Executive (CE) of the Hong Kong Special Administrative Region in relation to any measures which may be taken to further any of the foregoing matters.

Governance and organisation structure of HKTB

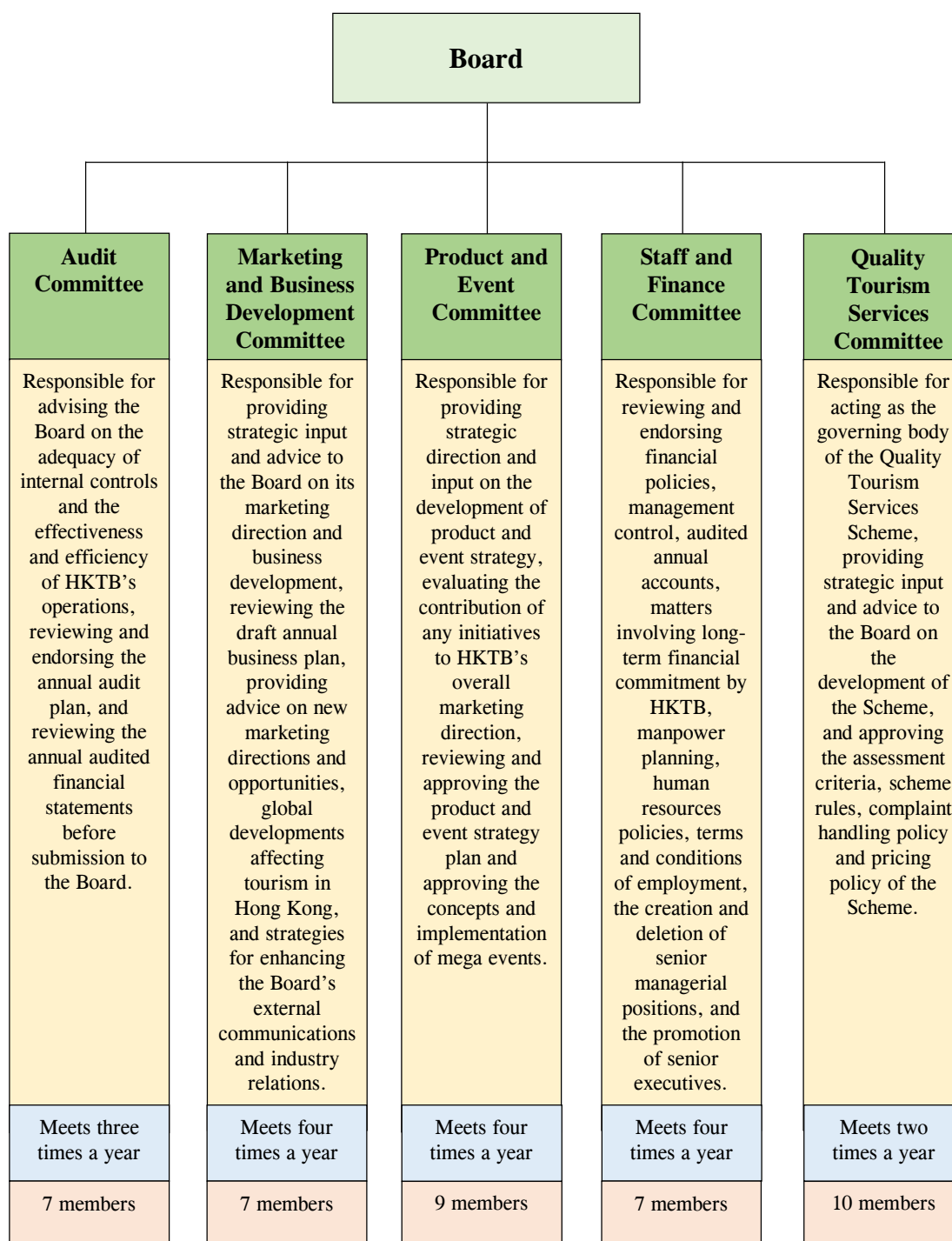
1.4 The Board is the governing body of HKTB and meets every two months. According to the HKTB Ordinance, the Board shall consist of 20 members (including the Chairman) (Note 3) appointed by CE (Note 4). The Board has appointed five Committees to oversee various aspects of HKTB's operations and provide advice to the Board on corporate governance matters arising from the Committees' work. The responsibilities, meeting frequencies and numbers of members of the Committees are shown in Figure 1.

Note 3: *According to the HKTB Ordinance, of the 20 Board members, two shall be passenger carriers, two shall be hotel operators, one shall be a licensed travel agent, one shall be a tour operator, one shall be a retailer and one shall be a restaurant operator. The Commissioner for Tourism (see para. 1.6) is the Deputy Chairman of the Board and is also a member of each of the five Committees of HKTB. As at 31 March 2020, the other 11 members comprised individuals from different sectors including legal, banking, business and entertainment.*

Note 4: *The authority for CE to appoint members of the Board has been delegated to the Financial Secretary.*

Figure 1

**Committees under the Board
(31 March 2020)**



Source: HKTb records

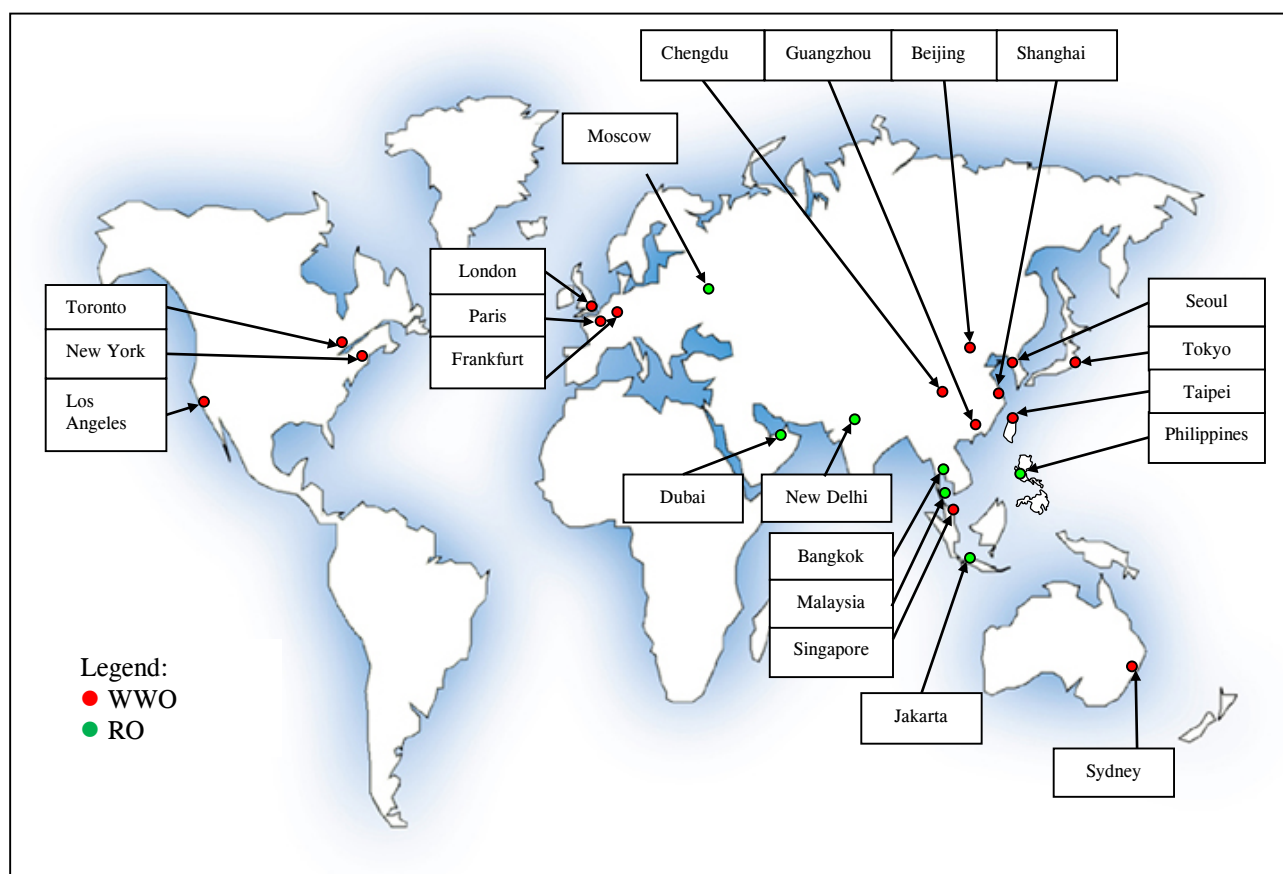
Remarks: The number of members of each Committee in this figure included the Chairman of the Committee.

Introduction

1.5 Under the HKTB Ordinance, the Board has the power to appoint an Executive Director (ED) to be the chief administrative officer, and other staff, agents or contractors. As at 31 March 2020, HKTB had an establishment of 379 staff, comprising 245 staff of its Hong Kong Head Office (HO) and 134 staff of its 15 Worldwide Offices (WWOs). Apart from WWOs, HKTB also had seven Representative Offices (ROs) to answer enquiries from the travel trade, media and consumers (see Figure 2). The operations of ROs are outsourced to external parties. An organisation chart is shown at Appendix A.

Figure 2

**Global network of WWOs and ROs
(31 March 2020)**



Source: *Audit analysis of HKTB records*

Relationship between HKTB and Government

1.6 The primary responsibilities of HKTB are to market and promote Hong Kong as a destination worldwide, and to take initiatives to enhance visitors' experience when they arrive. The Commerce and Economic Development Bureau (CEDB) is responsible for overseeing the operation of HKTB. The Tourism Commission (TC) under CEDB formulates and coordinates the implementation of policies, strategies and plans for tourism development. TC also leads and coordinates the work of government bureaux and departments on policies and initiatives which have an impact on tourism development. TC is headed by the Commissioner for Tourism. It works closely with HKTB and other organisations to promote the development of tourism in Hong Kong.

Sources of income

1.7 The major sources of income of HKTB are:

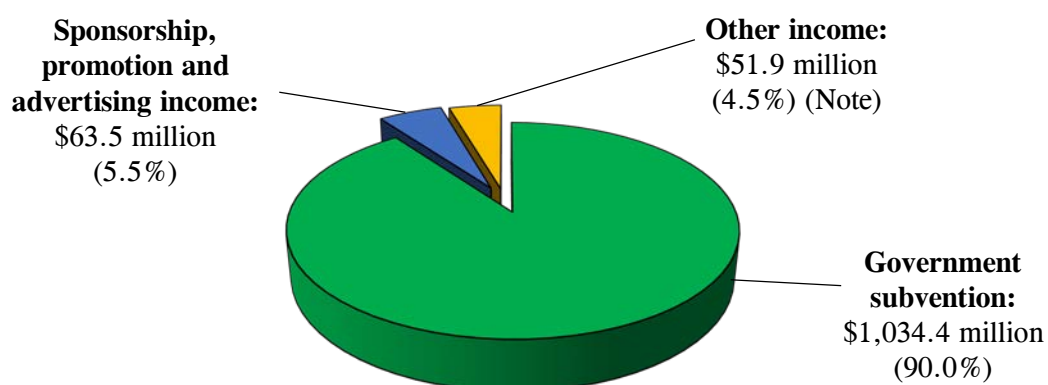
- (a) ***Government subvention.*** Government subvention is the principal source of HKTB's income. The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) is the Controlling Officer of the subvention granted to HKTB. According to the Controlling Officer's Report (COR), the aim of subvention to HKTB was to promote inbound tourism and maximise the socio-economic contribution that tourism made to Hong Kong;
- (b) ***Sponsorship, promotion and advertising income.*** This includes:
 - (i) sponsorship for funding mega events, activities and communication materials; and
 - (ii) revenue from advertisements in its publications and website, as well as in the venue of mega events organised by HKTB; and
- (c) ***Other income.*** This mainly includes interest income and fees collected for HKTB's services. For instance, HKTB collects fees from participating merchants of the Quality Tourism Services Scheme.

Income and expenditure

1.8 In 2018-19 and 2019-20, HKTB's income was \$1,149.8 million and \$869.3 million respectively (see Figures 3 and 4). In 2018-19 and 2019-20, HKTB's expenditure was \$1,146 million and \$865.2 million respectively (see Figures 5 and 6).

Figure 3

**Analysis of total income of \$1,149.8 million of HKTB
(2018-19)**

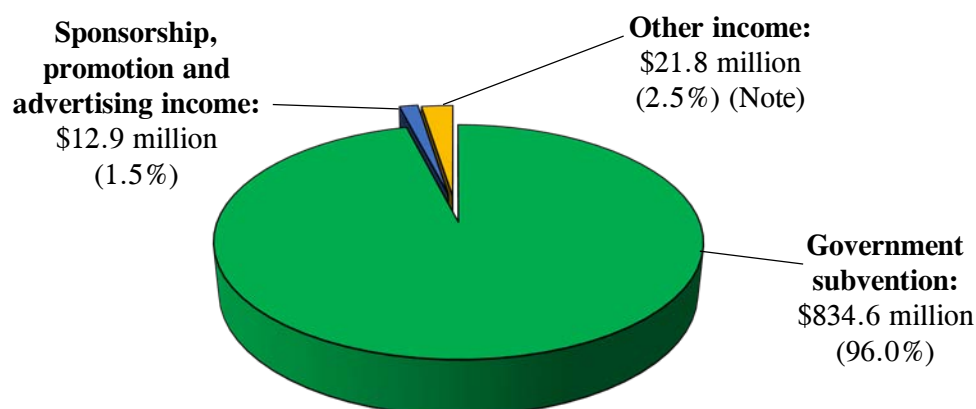


Source: Audit analysis of HKTB's financial statements

Note: Other income was mainly interest income and service fees.

Figure 4

**Analysis of total income of \$869.3 million of HKTB
(2019-20)**

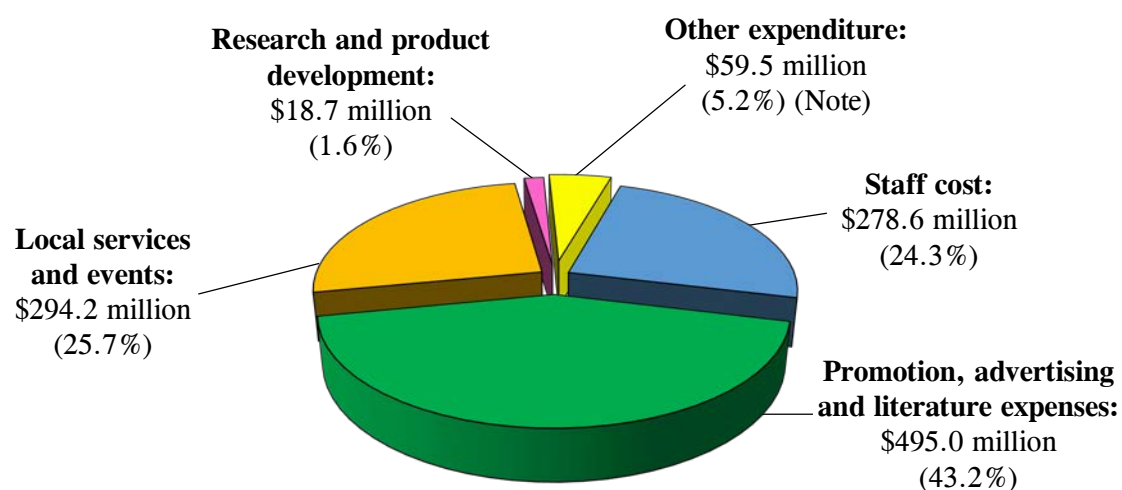


Source: Audit analysis of HKTB's financial statements

Note: Other income was mainly interest income and service fees.

Figure 5

**Analysis of total expenditure of \$1,146 million of HKTB
(2018-19)**

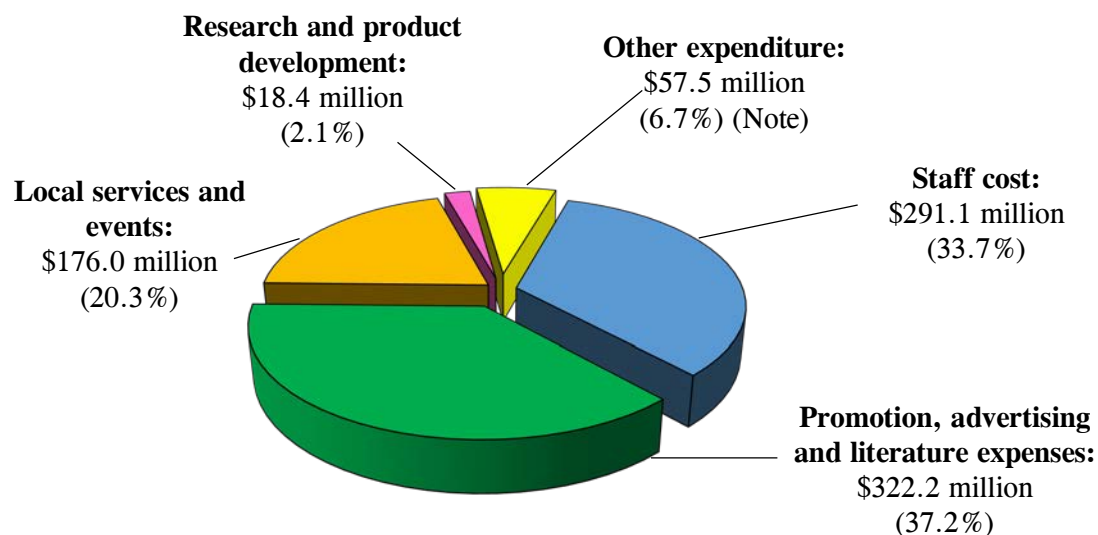


Source: Audit analysis of HKTB's financial statements

Note: Other expenditure included rent, rates, management fees, depreciation, auditor's remuneration, etc.

Figure 6

**Analysis of total expenditure of \$865.2 million of HKTb
(2019-20)**



Source: Audit analysis of HKTb's financial statements

Note: Other expenditure included rent, rates, management fees, depreciation, auditor's remuneration, etc.

Performance of tourism industry

1.9 CEDB reports the performance of the tourism industry in COR under five indicators (see Table 1):

- (a) visitor arrivals;
- (b) length of stay of overnight visitors;
- (c) satisfaction of overnight visitors;
- (d) per capita expenditure of overnight visitor; and
- (e) tourism expenditure associated with inbound tourism.

Table 1

**Performance of tourism industry in Hong Kong
(2014 to 2019)**

Performance indicator	2014	2015	2016	2017	2018	2019 (Note)
Visitor arrivals (million)	60.8	59.3	56.7	58.5	65.1	55.9
Length of stay of overnight visitors (night)	3.3	3.3	3.3	3.2	3.1	3.3
Satisfaction of overnight visitors (score out of 10)	8.2	8.2	8.3	8.4	8.6	8.5
Per capita expenditure of overnight visitor (\$)	7,960	7,234	6,599	6,443	6,614	5,820
Tourism expenditure associated with inbound tourism (\$ billion)	359.0	332.3	296.2	296.7	328.2	259.8

Source: CORs of CEDB

Note: According to HKTB, the performance of the tourism industry in 2019 was adversely affected by the social unrest in Hong Kong.

1.10 According to HKTB, since mid-2019, the social unrest in Hong Kong has brought about a negative impact on the performance of the tourism industry (see Table 1). Since January 2020, the outbreak of the coronavirus disease (COVID-19) has hard hit the tourism industry of Hong Kong and the world as a whole. In response to the outbreak of COVID-19, many governments have imposed various stringent travel restrictions and quarantine measures. In the period from January to August 2020, the number of visitor arrivals to Hong Kong was about 3.5 million, representing a drop of about 92% as compared to the same period in 2019.

Audit review

1.11 In May 2020, the Audit Commission (Audit) commenced a review of HKTb. The findings of this audit review are contained in two separate Audit Reports, as follows:

- (a) “Hong Kong Tourism Board: Corporate governance and administrative issues” (the subject matter of this Audit Report); and
- (b) “Hong Kong Tourism Board: Efforts in promoting tourism” (Chapter 8 of the Director of Audit’s Report No. 75).

1.12 This Audit Report focuses on the following areas:

- (a) corporate governance (PART 2);
- (b) human resource management and other administrative issues (PART 3); and
- (c) Worldwide Offices and Representative Offices (PART 4).

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

General response from the Hong Kong Tourism Board

1.13 ED, HKTb appreciates the effort made by Audit in conducting this review. He has said that:

- (a) HKTb takes very seriously the recommendations in the two Audit Reports and has carried out significant follow-up actions;
- (b) HKTb will continue to make every effort to constantly review and strengthen its corporate guidelines and procedures to ensure optimal use of public resources; and

- (c) COVID-19 has transformed the global tourism landscape. HKTb has started to conduct a holistic and thorough review of Hong Kong's status and position in the worldwide industry, including its strategies for investment, meetings, incentives, conventions and exhibitions (MICE) events, cruise tourism and mega events, with the objective of revitalising the Hong Kong tourism brand and driving sustainable, long-term tourism growth.

General response from the Government

1.14 The Secretary for Commerce and Economic Development agrees with the audit recommendations.

Acknowledgement

1.15 During the audit review, in light of the outbreak of COVID-19, the Government and HKTb had implemented various special work arrangements and targeted measures for their employees, including working from home. Audit would like to acknowledge with gratitude the full cooperation of the staff of CEDb and HKTb during the course of the audit review amid the COVID-19 epidemic.

PART 2: CORPORATE GOVERNANCE

2.1 This PART examines issues relating to corporate governance of HKTb, focusing on the following areas:

- (a) Board and Committees (paras. 2.3 to 2.20);
- (b) Memorandum of Administrative Arrangements (MAA) (paras. 2.21 to 2.24);
- (c) government subvention to HKTb (paras. 2.25 to 2.30); and
- (d) performance measurement and reporting (paras. 2.31 to 2.37).

Background

2.2 The Board is the governing body of HKTb. According to the HKTb Ordinance, the Board shall consist of 20 members appointed by CE. The Board has appointed five Committees (see para. 1.4) to oversee various aspects of HKTb's operations and provide advice to the Board on corporate governance matters arising from the Committees' work:

- (a) Audit Committee;
- (b) Marketing and Business Development Committee;
- (c) Product and Event Committee;
- (d) Quality Tourism Services Committee; and
- (e) Staff and Finance Committee.

Board and Committees

Need to appoint Chairmen/members of Committees in a timely manner

2.3 According to HKTB, a Board member is appointed into Committee(s) as follows:

- (a) the Board secretary discusses with ED on which Committee(s) the new Board member will be invited to join;
- (b) the Board secretary makes recommendation to the Chairman of the Board on the suitable Committee(s) for the Board member;
- (c) upon the agreement with the Board member, the Board's approval on the appointment will be sought in the Board meeting or by circulation paper; and
- (d) on the appointment of Committee members, HKTB considers the following factors:
 - (i) ***Background of the member.*** For example, members with tax, audit or legal background will be recommended to join the Audit Committee or the Staff and Finance Committee. Members with art, cultural or trade background will be recommended to join the Product and Event Committee;
 - (ii) ***Committee membership of his predecessor.*** If the retiring member is in the Staff and Finance Committee and the Marketing and Business Development Committee, the new member will be recommended to join these Committees to maintain the number of members in the Committees at similar level; and
 - (iii) ***Number of members in each Committee.*** HKTB aims to maintain a balance of Board's representative in each Committee so that the participation of members is effective.

2.4 Audit noted that there was room for improvement in the appointment of the Chairmen and members of the Committees:

- (a) ***Industry members of Quality Tourism Services Committee not appointed in a timely manner.*** According to its terms of reference, the Quality Tourism Services Committee comprises a Chairman, six Board members and four Industry members (three from catering and retail industry, and one from consumer rights protection field). Audit noted that the appointment and the re-appointment of Industry members were not always made in a timely manner. In the period from 2015-16 to 2019-20, there were delays in the appointment of six members and the re-appointment of three members. The average period of vacancy of membership was four months, ranging from two to eight months; and
- (b) ***Chairman of Audit Committee not appointed in a timely manner.*** In 2019, upon the retirement of the Chairman of the Audit Committee on 31 March, the proposed appointment of the new Chairman was not circulated to Board members for approval until 2 July and the new Chairman was appointed with effect from 9 July (i.e. more than 3 months after the end of the term of the last Chairman).

2.5 Audit considers that HKTB needs to take measures to ensure that the Chairmen and members of the Committees are appointed in a timely manner.

Need to appoint more young people to the Board

2.6 In her 2017 Policy Address, CE announced that the Government would appoint more young people to various government boards and committees with the aim of increasing the overall ratio of youth members (i.e. persons who are aged between 18 and 35) to 15% within the current-term Government.

2.7 As at August 2020, none of the 19 non-official Board members were aged between 18 and 35. Audit noted that in the period from the announcement of the 2017 Policy Address in October 2017 to August 2020, there were 12 new Board members appointed. Only one (8%) of them was aged between 18 and 35 at the time of appointment. Audit considers that CEDB needs to step up efforts to appoint more young people to the Board.

Late issue of minutes of Board/Committee meetings

2.8 It is important that the minutes of Board/Committee meetings are issued to members as soon as practicable after the meetings. This will enable members to comment on the minutes and suggest amendments while their memory of the meeting is still fresh. According to HKTB's guidelines, draft minutes of Board/Committee meetings would be circulated to members within three weeks of the meetings.

2.9 Audit examined the 126 draft minutes of Board/Committee meetings conducted in the period from 2015-16 to 2019-20 and found that 41 (33%) of them were not issued within three weeks after the meetings, contrary to HKTB's guidelines (see para. 2.8). The delays ranged from 1 to 42 days, averaging 11 days. Audit considers that HKTB needs to take measures to ensure that draft minutes are circulated to members within three weeks of the meetings in accordance with HKTB's guidelines.

Need to improve handling of declaration of interest in meetings

2.10 According to the Code of Conduct for Board Members issued by HKTB (Note 5):

- (a) Board members must observe the Two-Tier Reporting System in the declaration of interest. This involves disclosing to HKTB their general pecuniary interest at the time of appointment and annually thereafter, and to report on conflicts of interest as and when they arise; and
- (b) if a member has any declarable interest in any matter under consideration by the Board, he must, as soon as practicable after he had become aware of it, disclose to the Chairman (or the Board) prior to the discussion of the item. The Chairman (or the Board) shall decide whether he may speak or vote on the matter, may remain in the meeting as an observer, or should withdraw from the meeting.

Note 5: *According to HKTB, the Code of Conduct for Board Members is applicable to both Board members and Committee members because all Committee members were also Board members except the Industry members of the Quality Tourism Services Committee. For these members, HKTB provides the guidelines to them for observing the One-Tier Reporting System in the declaration of interests.*

The Code of Conduct did not provide guidelines on the circumstances where the member who has declarable interest in the matter under consideration may speak or vote on the matter, may remain in the meeting as an observer, or should withdraw from the meeting.

2.11 According to the leaflet “Tips for Non-governmental Organisations — Management of Conflict of Interest” published by the Independent Commission Against Corruption in January 2019, a board should handle the declared conflict of interest prudently and should not merely take note of the declared conflict without making decision on the mitigating measures.

2.12 Audit examined the Board/Committee minutes of 126 meetings held in the period from 2015-16 to 2019-20. Audit noted that declarations of interest were made by the Chairmen and some members in 17 meetings:

- (a) in 2 (12%) meetings, the decisions on handling conflict of interest were documented in the meeting minutes (Note 6), but the rationales behind the decisions were not documented;
- (b) in 5 (29%) meetings, the decisions on handling conflict of interest and the rationales behind the decisions were not documented in the minutes. The Chairmen/members concerned abstained from discussion and/or voting but had not withdrawn from the meeting; and
- (c) in the remaining 10 (59%) meetings, there was no documentary evidence showing that there had been decisions made on handling conflict of interest, and the Chairmen/members concerned had not abstained from discussion or voting and had not withdrawn from the meeting.

Note 6: *In one meeting, it was decided that the Chairman who had declared conflict of interests continued to chair the meeting but abstained from voting. In the other meeting, it was decided that the Chairman and five members who had declared conflict of interests were allowed to vote on the matter.*

2.13 In Audit's view, the Board should have adopted mitigating measures commensurate with the actual or perceived risks, and well documented the decision made and the rationale behind. Audit considers that HKTB needs to:

- (a) document the decisions on the mitigating measures relating to declared interest and the rationales behind the decisions in the meeting minutes; and
- (b) enhance the guidelines in the Code of Conduct with a view to providing guiding principles on the circumstances where the Chairmen/members declaring their interest may remain in the meetings, and speak and/or vote in the meetings.

Late submission of declaration of interest forms

2.14 Audit examined the 16 declaration of interest forms for first appointment and the 95 annual declaration of interest forms submitted by Board members in the period from 2016 to 2020 (up to April 2020). Audit found that 4 (25%) of the 16 declaration of interest forms for first appointment and 17 (18%) of the 95 annual declaration of interest forms were submitted after the required submission dates. The delays ranged from 1 to 78 days, averaging 17 days.

2.15 According to the Code of Conduct for Board Members issued by HKTB, when a known potential conflict of interest exists, the Board secretary may withhold the circulation of relevant papers to the member concerned. However, Audit noted that in 6 (29%) of the 21 cases of late submission of declaration of interest forms, Board papers had been circulated to the 6 members concerned before the submission, including 3 newly appointed Board members and 3 incumbent Board members (Note 7). On these occasions, it turned out that there were no potential conflicts of interest. However, the late declarations would have made it impossible for the Board secretary to withhold circulation of sensitive information in the relevant papers to these members had they subsequently declared a potential conflict of interest.

Note 7: *According to HKTB, since the incumbent Board members understood the requirements of declaration and the Board secretary should have their interests declared in HKTB's records, there was no expiry date for their declarations and the annual declaration was merely a reminder for Board members to update the changes, if any, in HKTB's records. Accordingly, HKTB would still distribute Board papers to incumbent members who had not submitted the annual declaration.*

2.16 Audit considers that HKTB needs to:

- (a) take measures to ensure that Board members submit declaration of interest forms in a timely manner; and
- (b) refrain from distributing papers to newly appointed Board members until their declaration of interest forms have been received.

Audit recommendations

2.17 Audit has *recommended* that the Secretary for Commerce and Economic Development should step up efforts to appoint more young people to the Board.

2.18 Audit has also *recommended* that ED, HKTB should:

- (a) take measures to ensure that the Chairmen and members of the Committees are appointed in a timely manner;
- (b) take measures to ensure that the draft minutes of Board/Committee meetings are circulated to members within three weeks of the meetings in accordance with HKTB's guidelines;
- (c) document the decisions on the mitigating measures relating to declared interest and the rationales behind the decisions in the meeting minutes;
- (d) enhance the guidelines in the Code of Conduct with a view to providing guiding principles on the circumstances where the Chairmen/members declaring their interest may remain in the meeting, and speak and/or vote in the meeting;
- (e) take measures to ensure that Board members submit declaration of interest forms in a timely manner; and
- (f) refrain from distributing papers to newly appointed Board members until their declaration of interest forms have been received.

Response from the Government

2.19 The Secretary for Commerce and Economic Development agrees with the audit recommendation in paragraph 2.17. He has said that:

- (a) CEDB is conscious of the need to appoint more young people to the Board and has been striving to do so. The average age profile of members decreased from 54.2 in January 2018 to 49.6 in September 2020; and
- (b) CEDB will endeavour to appoint more young people to the Board in future appointment exercises.

Response from the Hong Kong Tourism Board

2.20 ED, HKTB agrees with the audit recommendations in paragraph 2.18. He has said that:

- (a) in some circumstances, a longer process may be needed before the appointments of Chairmen/members are confirmed. Committee secretaries have been reminded to allow sufficient lead time to initiate and complete the appointment process prior to the departure of outgoing Chairmen or Committee members, so as to ensure that appointments are made in a timely manner;
- (b) HKTB has always made efforts to circulate the draft minutes of Board/Committee meetings to members within three weeks of the meetings. HKTB will enhance the guidelines so that if there is any delay due to unforeseen circumstances, the Board/Committee secretaries shall notify the Chairmen with an explanation before the submission deadline;
- (c) a Code of Conduct for Board Members (the Two-Tier Reporting System) is in place to request the documentation of the declaration of conflicts of interest in the meeting minutes. The requirement to document the decision on declarations of interest in the meeting by Chairman/members was also reinforced by the Audit Committee at its 77th meeting on 30 July 2019. The Board secretary conducted a briefing with all Committee secretaries in November 2019 to reiterate the requirement;

- (d) for the requirement to document the rationale of decisions made over declarations of interest, the Independent Commission Against Corruption in July 2020 provided guidelines on the courses of action available according to the nature of the declarations. The Board secretary put the guidelines into effect in August 2020; and
- (e) a procedure will be put in place to provide sufficient lead time for Board members, including newly-appointed members, to submit declarations of interest in a timely manner. HKTb will also ensure that declarations of interest are obtained before distributing papers to newly appointed Board members.

Memorandum of Administrative Arrangements

Need to enter into an MAA with HKTb

2.21 According to Financial Circular No. 9/2004 “Guidelines on the Management and Control of Government Funding for Subvented Organisations” issued by the Secretary for Financial Services and the Treasury (updated on 5 March 2019), as a matter of good management, Directors of Bureaux or the Controlling Officers should preferably enter into an MAA or a similar instrument with each organisation receiving recurrent funding from the Government under their purview. Such tailor-made instruments should set out the responsibilities of all parties in the delivery and monitoring of government-funded services and capital projects. However, the Government and HKTb have not entered into an MAA since the establishment of HKTb in April 2001.

2.22 Audit considers that CEDb needs to enter into an MAA with HKTb, setting out the responsibilities of the Government and HKTb in the delivery and monitoring of HKTb’s services.

Audit recommendation

2.23 Audit has *recommended* that the Secretary for Commerce and Economic Development should enter into an MAA with HKTb, setting out the responsibilities of the Government and HKTb in the delivery and monitoring of HKTb’s services.

Response from the Government

2.24 The Secretary for Commerce and Economic Development agrees with the audit recommendation. He has said that:

- (a) while CEDB has not entered into an MAA with HKTb since its establishment in 2001, there have been established practices and guidelines in place to set out the responsibilities of TC and HKTb in the delivery and monitoring of services; and
- (b) CEDB will enter into an MAA with HKTb in accordance with Financial Circular No. 9/2004.

Government subvention to the Hong Kong Tourism Board

2.25 Government subvention is the principal source of HKTb's income (see para. 1.8). In 2019-20, government subvention accounted for 96% of HKTb's income. The Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) is the Controlling Officer of the subvention granted to HKTb. The subvention comprises the following:

- (a) ***Recurrent subvention.*** This is provided to HKTb in the form of baseline subvention; and
- (b) ***Additional funding.*** Additional funding on a time-limited basis is provided to HKTb in addition to the baseline subvention to support HKTb in implementing specific promotional activities.

The government subventions to HKTb in the period from 2015-16 to 2020-21 ranged from \$758.6 million to \$1,502.2 million (see Table 2).

Table 2

**Government subventions to HKTB
(2015-16 to 2020-21)**

Financial Year	Recurrent subvention (a) (\$ million)	Additional funding (b) (\$ million)	Total subvention (c) = (a) + (b) (\$ million)
2015-16	628.6 (83%)	130.0 (17%)	758.6 (100%)
2016-17	633.4 (72%)	249.8 (28%)	883.2 (100%)
2017-18	648.6 (68%)	302.6 (32%)	951.2 (100%)
2018-19	660.3 (69%)	302.3 (31%)	962.6 (100%)
2019-20	698.2 (64%)	386.7 (36%)	1,084.9 (100%)
2020-21 (Note)	728.2 (48%)	774.0 (52%)	1,502.2 (100%)

Source: Audit analysis of TC records and CORs

Note: The significant additional funding for 2020-21 was provided to HKTB to step up promotion and revive the tourism industry when the epidemic is over.

Remarks: The amount of government subvention shown in the financial statements of HKTB was different from that shown in COR. The difference arose mainly because according to the accounting policies of HKTB, government subvention received to finance non-recurrent activities and MICE activities was recognised as income to the extent of the related expenditure incurred during the year, with the unutilised balance of the subvention accounted for as receipts in advance.

Room for improvement in handling unspent additional funding

2.26 According to Financial Circular No. 9/2004:

- (a) subject to the provisions of relevant legislation or funding agreement, a subvented organisation may place surpluses arising from subvented programmes into a reserve. The keeping of reserve gives organisations an

incentive to economise. It also provides organisations with a buffer to meet contingency;

- (b) the Controlling Officer should, in consultation with the Financial Services and the Treasury Bureau (The Treasury Branch), set an appropriate reserve ceiling for funds so carried forward. The objective is to prevent an organisation from accumulating more than is necessary, at the expense of other worthy causes which may have been supported by public funds had the “underspending” in subvention been returned to the Government; and
- (c) the Controlling Officer should have an understanding with the subvented organisation on circumstances under which the provision for additional subvention may be considered during the year, as well as circumstances under which surplus subvention may be clawed back (notwithstanding any arrangements for the keeping of reserves in (a) and (b) above). In all circumstances, Controlling Officers should satisfy themselves that an appropriate system of cost control and monitoring is in place for overseeing the spending of public money by subvented organisations, having regard to economy, efficiency and effectiveness in the delivery of public services and use of public funds.

2.27 Upon the end of the financial year, HKTb submits to TC the overall spending position of additional funding and seeks the approval of CEDB on the proposal for rollover of unspent additional funding for existing or new services. Audit noted that in the period from 2016-17 to 2019-20, HKTb had unspent additional funding ranging from \$13.8 million to \$270.2 million (see Table 3). In the period from 2016-17 to 2018-19, CEDB approved HKTb to rollover the unspent additional funding. In response to Audit’s enquiry, TC informed Audit in September 2020 that the unspent additional funding of \$270.2 million for 2019-20 would be returned to the Government.

Table 3

**Unspent additional funding at the end of financial year
(2016-17 to 2019-20)**

Financial year	Additional funding (\$ million)	Unspent additional funding (\$ million)	Percentage
2016-17	249.8	13.8	5.5%
2017-18	302.6	33.6	11.1%
2018-19	302.3	24.4	8.1%
2019-20	386.7	270.2 (Note)	69.9%

Source: Audit analysis of HKTB and TC records

Note: The significant amount of unspent additional funding in 2019-20 was mainly due to cancellations and deferrals of events and campaigns as a result of social unrest and the outbreak of COVID-19.

2.28 Audit considers that CEDB needs to set up a mechanism of handling unspent additional funding taking into account the requirements stipulated in Financial Circular No. 9/2004 and incorporate the mechanism into MAA with HKTB as appropriate.

Audit recommendation

2.29 Audit has *recommended* that the Secretary for Commerce and Economic Development should set up a mechanism of handling unspent additional funding taking into account the requirements stipulated in Financial Circular No. 9/2004 and incorporate the mechanism into MAA with HKTB as appropriate.

Response from the Government

2.30 The Secretary for Commerce and Economic Development agrees with the audit recommendation. He has said that:

- (a) all along TC has been processing HKTB's proposals on rollover of unspent additional funding according to the spirit of Financial Circular No. 9/2004; and
- (b) as CEDB will enter into an MAA with HKTB, CEDB will set up a mechanism of handling unspent additional funding taking into account the requirements stipulated in Financial Circular No. 9/2004 for incorporation into MAA as appropriate.

Performance measurement and reporting

Key performance indicators (KPIs)

2.31 HKTB uses the following six KPIs to measure the performance of the tourism industry:

- (a) visitor arrivals;
- (b) length of stay of overnight visitors;
- (c) per capita spending of overnight visitor;
- (d) satisfaction of overnight visitors;
- (e) revisit intention; and
- (f) visitors' recommendations to friends and relatives.

The targets and actual results of KPIs for the period from 2017 to 2019 are shown in Table 4.

Table 4

**Targets and actual results of KPIs
(2017 to 2019)**

KPI	2017		2018		2019	
	Target	Actual	Target	Actual	Target	Actual
Visitor arrivals (million)	55.4	58.5	60.6	65.1	66.4	55.9
Length of stay of overnight visitors (night)	3.3	3.2	3.1	3.1	3.1	3.3
Per capita expenditure of overnight visitor (\$)	6,254	6,443	6,347	6,614	6,195	5,820
Satisfaction of overnight visitors (score out of 10)	8.3	8.4	8.4	8.6	8.6	8.5
Revisit intention	90%	92%	92%	92%	92%	92%
Visitors' recommendations to friends and relatives	90%	92%	91%	92%	92%	89%

Source: HKTB records

Business performance indicators (BPIs)

2.32 To further the development of Hong Kong's tourism businesses, HKTB has set a number of strategic focuses. Each year, these focuses are reviewed by TC for incorporation into HKTB's Work Plan submitted to Legislative Council Panel on Economic Development for discussion. Audit reviewed the five Work Plans for the period from 2014-15 to 2018-19 and noted that every year HKTB set out its marketing budget by individual strategic focuses. The actual marketing expenditure for each strategic focus (see Appendix B) was not included in the Work Plans. The strategic focuses for the period were:

- (a) consolidate "Hong Kong — Asia's World City" brand and step up public relations promotions;
- (b) intensify digital marketing;

- (c) strengthen the appeal of mega events;
- (d) promote Hong Kong as the hub for multi-destination travel in the region;
- (e) drive MICE business;
- (f) build cruise demand;
- (g) strengthen trade support and partnerships;
- (h) maintain quality service; and
- (i) uphold corporate governance (including resource management, financial management, application of information technology, visitor surveys and strategic planning).

HKTB has adopted a set of BPIs to measure the performance relating to each strategic focus.

Need to improve the setting of BPIs

2.33 HKTB's approaches to the setting of KPI and that of BPI are different with different degree of engagement of the Board. In the Annual Business Plan and Budget submitted to the Board every year, HKTB sets out the six KPIs (see para. 2.31) and the targets for the Board's endorsement. Audit noted that when setting BPIs and the related targets every year for monitoring its effectiveness under each strategic focus, HKTB had not sought the endorsements of the Board.

2.34 In January 2020, with an aim to gradually restore visitor confidence, rebuild Hong Kong's image as a world-class travel destination and revive the tourism industry, HKTB drew up its 2020-21 Work Plan with the following five strategic focuses:

Corporate governance

- (a) review Hong Kong's tourism brand and rebuild the city's tourism image;
- (b) enhance support and collaboration with the travel trade;
- (c) secure MICE and cruise business;
- (d) leverage mega events to convey a positive message; and
- (e) uphold corporate governance (including resource management, financial management, application of information technology, visitor surveys and strategic planning).

Audit considers that HKTb needs to consider seeking the endorsements of the Board in devising the BPIs and their respective targets for monitoring HKTb's performance under the strategic focuses.

Need to improve the reporting of KPIs and BPIs

2.35 Audit examined HKTb's reporting of KPIs and BPIs and noted room for improvement:

- (a) **Reporting of KPIs.** HKTb reported the actual results for the KPIs in its annual report. However, the related targets were not reported in the annual report; and
- (b) **Reporting of BPIs.** The targets and the actual results for the BPIs under each strategic focus were not reported to the Board.

To enhance transparency and accountability of its operation to the public, Audit considers that HKTb needs to enhance its performance reporting. In particular, HKTb needs to report the related targets for the KPIs in its annual report. HKTb also needs to report the targets and the actual results for the BPIs under each strategic focus to the Board.

Audit recommendations

2.36 **Audit has *recommended* that ED, HKTB should:**

- (a) **consider seeking the endorsements of the Board in devising the BPIs and their respective targets for monitoring HKTB's performance under the strategic focuses; and**
- (b) **take measures to enhance HKTB's performance reporting. In particular, HKTB should:**
 - (i) **report the related targets for the KPIs in its annual report; and**
 - (ii) **report the targets and the actual results for the BPIs under each strategic focus to the Board.**

Response from the Hong Kong Tourism Board

2.37 **ED, HKTB agrees with the audit recommendations. He has said that:**

- (a) **HKTB will seek the views and endorsements of the Board and related Committees in devising BPIs and their respective targets; and**
- (b) **related targets and the achievement of the targets for KPIs will be included in the upcoming annual report and thereafter. HKTB will provide regular updates on BPIs to the relevant authorities.**

PART 3: HUMAN RESOURCE MANAGEMENT AND OTHER ADMINISTRATIVE ISSUES

3.1 This PART examines the human resource management and other administrative issues of HKTB, focusing on the following areas:

- (a) pay structure of HKTB (paras. 3.2 to 3.13);
- (b) staff management issues (paras. 3.14 to 3.22); and
- (c) other administrative issues (paras. 3.23 to 3.33).

Pay structure of the Hong Kong Tourism Board

3.2 HKTB staff comprise HO staff and WWO staff. HO staff are classified into four grades (HO Grades A to D) and 18 job levels. WWO staff (except the Chengdu WWO and its sub-office in Wuhan) are classified into four grades (WWO Grades A to D) and 11 job levels (i.e. Levels 11 to 21) (see Table 5). There are only 3 grades and 7 job levels for the staff in the Chengdu WWO and its sub-office in Wuhan.

Table 5
Pay structure of HO and WWO staff
(31 March 2020)

Grade	HO staff		WWO staff	
	Job level	Typical job positions	Job level	Typical job positions
A	20 to 22 and 24 (23 as omitted)	<ul style="list-style-type: none"> • ED • Deputy ED • General Manager 	20 to 21	<ul style="list-style-type: none"> • Regional Director
B	16 to 19	<ul style="list-style-type: none"> • Director • Senior Manager • Manager 	16 to 19	<ul style="list-style-type: none"> • Director • Senior Manager • Manager
C	13 to 15	<ul style="list-style-type: none"> • Assistant Manager • Senior Executive • Executive 	13 to 15	<ul style="list-style-type: none"> • Assistant Manager • Senior Executive • Executive
D	6 to 12	<ul style="list-style-type: none"> • Officer • Senior Assistant • Senior Clerk • Clerk/Assistant • Receptionist • Office Assistant • Amah 	11 to 12	<ul style="list-style-type: none"> • Officer

Source: Audit analysis of HKTB records

3.3 Under HKTB's pay structure, the minimum and maximum of each job level's salary range are 75 % and 125 % respectively of the mid-point. Audit examined the salaries of HKTB staff as at 31 March 2020 and noted that of the 423 staff (Note 8), the salaries of 85 (20 %) staff were below the minimum of the salary ranges. In response to Audit's enquiry, HKTB informed Audit in October 2020 that HKTB had taken measures to ensure that salaries of its staff meet their reasonable expectations while maintaining the prudent use of public resources.

Note 8: *As at 31 March 2020, 347 of the 423 staff were permanent staff in HKTB's staff establishment and the remaining 76 staff were contract staff not under HKTB's staff establishment. The approved salary range is applicable to both permanent and contract staff.*

3.4 HKTB commissioned consultants to carry out pay structure reviews for HO staff in 2003, 2011, 2016 and 2017, and WWO staff in 2006 and 2018. The reviews benchmarked the salary range for each job level against the market to ensure competitiveness of HKTB's salary structure. The mid-point of each job level's salary range was compared against the market median. If the mid-point was found outside the acceptable deviance range (i.e. 85% to 115% of the market median), the mid-point of the salary range for that job level was adjusted back to the range after obtaining the approval of the Staff and Finance Committee.

3.5 Salaries of staff are revised annually taking into account two factors:

- (a) **Individual performance.** Performance of staff is evaluated according to a range from Band 1 to Band 7. Salary increase percentages granted to staff attaining performance Band 1 to Band 3 are higher than staff attaining performance Band 4 and Band 5. Staff attaining performance Band 6 and Band 7 will not be granted salary increase; and
- (b) **Compa-ratio.** Compa-ratio (CR) refers to the ratio between the actual salary of a staff and the mid-point of his job level's salary range. Staff with a CR over 125% are not entitled to salary increase. For staff with equal performance Band, those with a CR at 100% or below will have a higher percentage of salary increase than those with CR higher than 100%. Staff attaining performance Band 6 and Band 7 will not be granted salary increase (see (a) above) irrespective of their CRs.

Need to conduct pay structure review in a more timely manner

3.6 Five years after the 2011 review on the pay structure for HO staff, HKTB completed another review in October 2016. The review found that the mid-points of 4 of the 18 job levels' salary ranges were outside the acceptable deviance range. The Staff and Finance Committee decided not to adjust the salary ranges for the time being and asked HKTB to conduct a more comprehensive pay structure review for HO staff in 2017. The results of the 2017 pay structure review indicated that the mid-points of 5 job levels' salary ranges (including 3 job levels identified in the 2016 review plus 2 newly identified job levels) were outside the acceptable deviance range (see Table 6). HKTB adjusted the pay structure according to the 2017 review results.

Table 6

**Job levels with mid-points of the salary ranges
outside the acceptable deviance range
(2017 and 2018)**

	Total no. of job levels	No. of job levels with mid-points outside the acceptable deviance range (Note)		No. of percentage points below/over acceptable deviance range (Note)	
		below	over	below	over
HO (as at 2017)	18	1	4	3	1 to 11
WWO (as at 2018):					
Beijing	11	—	4	—	2 to 21
Shanghai	11	—	1	—	1
Wuhan (sub-office of Chengdu)	7	2	—	1 to 7	—
Sydney	11	2	—	2	—
Tokyo	11	—	7	—	3 to 14
Taipei	11	—	11	—	14 to 56
Los Angeles	11	—	2	—	1 to 8
New York	11	3	1	2 to 4	7
Overall (WWO)	84	7	26	1 to 7	1 to 56

Source: Audit analysis of HKTB records

Note: The acceptable deviance range was 85% to 115% of the market median (see para. 3.4). Mid-points of 5 jobs levels of HO and 33 job levels of WWO were outside the acceptable deviance range. Numbers in these two columns were the number of percentage points of such mid-points below 85% or over 115%. For instance, for HO, there were 1 job level with mid-point at 82% (i.e. 85% - 3%) of the market median and 4 job levels with mid-points at 116% (115% + 1%) to 126% (115% + 11%) of the market medium.

3.7 Twelve years after the 2006 review on the pay structure for WWO staff, HKTb conducted another review in 2018. According to the results of the 2018 review, of the 15 WWOs, 8 (53%) had one or more job levels with mid-points of the salary ranges outside the acceptable deviance range. Of the 84 job levels of the 8 WWOs (see Table 6), 33 (39%) were outside the acceptable deviance range. In particular, the mid-points of all job levels' salary ranges of the Taipei WWO exceeded the acceptable deviance range by 14 to 56 percentage points (see Table 6). HKTb adjusted the pay structure of these WWOs according to the 2018 review results.

3.8 Audit noted that in the past 20 years, HKTb carried out pay structure reviews only four times for HO staff and twice for WWO staff (see para. 3.4). In April 2018 and May 2019, the Staff and Finance Committee adopted the recommendations of the salary review consultant to review every three years the pay structures of HO and WWOs respectively. With a view to identifying in good time the job levels with mid-points of the salary ranges outside the acceptable deviance range, Audit considers that HKTb needs to take measures to ensure that the pay structure review is conducted in a more timely manner.

Need to submit reports on remuneration review for senior staff to CEDb regularly

3.9 According to Circular Memorandum No. 2/2003 (Note 9) issued by the Director of Administration in March 2003:

Note 9: *In August 2018, the Director of Administration issued Circular Memorandum No. 11/2018 to supersede Circular Memorandum No. 2/2003, with salient requirements remaining unchanged. The required frequency of submission of the review reports was revised from “annually” to “regularly”.*

- (a) save for certain exceptions (Note 10), all subvented bodies which receive more than 50% of their operating income from the Government should review the number, ranking and remuneration (including basic salary, variable pay and all kinds of allowance) of staff at their top three tiers (the remuneration review) and submit to their relevant Director(s) of Bureau(x) reports on the review findings annually;
- (b) subvented bodies should explain and justify any changes in the number, ranking and remuneration of staff at the top three tiers over the period covered in the report; and
- (c) to enhance transparency, the Director of the respective Bureau will work out with those subvented bodies under his purview suitable arrangements for public disclosure of their regular review reports.

3.10 HKTb receives more than 50% of its income from the Government (see para. 1.8) and therefore has to comply with the requirements of the Circular Memorandum. HKTb's top three tiers of staff are ED, Deputy ED and General Managers/Regional Directors. Audit noted that since its establishment in 2001, HKTb had not conducted any remuneration reviews and therefore had not submitted any reports on review findings to CEDB. In response to Audit's enquiry, TC informed Audit in September 2020 that TC had been monitoring the remuneration of all HKTb staff including the senior staff by reviewing the pay structure review reports HKTb submitted to the Staff and Finance Committee (see para. 3.4). In Audit's view, the pay structure reviews fell short of the requirements of the Circular Memorandum. For example, no explanation or justification for the changes in the number, ranking and remuneration of staff at the top three tiers was provided in the pay structure review reports (see para. 3.9(b)).

3.11 Audit considers that HKTb needs to review the number, ranking and remuneration of staff at the top three tiers and submit to CEDB reports on the review

Note 10: *Major exemption criteria include: (a) government funds are provided as subscription/sponsorship fees; (b) government funds are provided as fees for the procurement of services; (c) organisations where their top three-tier positions are filled entirely by civil servants; and (d) organisations that are subject to statutory provisions or decisions approved by the Executive Council/Legislative Council.*

findings according to the requirements of the relevant Circular Memorandum issued by the Director of Administration.

Audit recommendations

3.12 **Audit has *recommended* that ED, HKTB should:**

- (a) **take measures to ensure that the pay structure review is conducted in a more timely manner with a view to identifying in good time the job levels with mid-points of the salary ranges outside the acceptable deviance range; and**
- (b) **review the number, ranking and remuneration of staff at the top three tiers and submit to CEDB reports on the review findings according to the requirements of the relevant Circular Memorandum issued by the Director of Administration.**

Response from the Hong Kong Tourism Board

3.13 ED, HKTB agrees with the recommendation in paragraph 3.12(b) and also notes the recommendation in paragraph 3.12(a). He has said that:

- (a) HKTB has adopted the consultant's recommendations (see para. 3.8) to conduct a pay structure review for HO and WWOs every three years. The recommendations were approved in April 2018 and May 2019 at Staff and Finance Committee meetings; and
- (b) HKTB will ensure that a report of the number, ranking, and remuneration of staff in the top three tiers is submitted to CEDB every three years, following the timeline for the review of HO staff pay structures.

Staff management issues

Need to improve the conduct and documentation of recruitment exercises

3.14 According to the Human Resources Policies and Procedures issued by HKTB, for the recruitment of General Manager/Regional Director positions:

- (a) the interview shall be conducted by a Selection Committee comprising at least half of the total number of Staff and Finance Committee members;
- (b) each interviewer is required to complete a Declaration of Conflict of Interest Form to provide positive declaration on the relationship with the candidate; and
- (c) each interviewer is required to complete an Interview Assessment Form after the interview, which documents his/her assessment of each candidate and whether the candidate is recommended for employment.

3.15 In the period from 2013-14 to 2019-20, HKTB conducted 6 recruitment exercises for General Manager/Regional Director positions. Audit reviewed the recruitment exercises and found that:

- (a) in 1 (17%) recruitment exercise, 2 of the 5 interviewers only signed blank Declaration of Conflict of Interest Forms without indicating whether they had relationship with the candidate; and
- (b) in 4 (67%) recruitment exercises, some interviewers had left blank the assessments on all the five aspects (Note 11) of the candidates on the Interview Assessment Forms (see para. 3.14(c) and Table 7).

Note 11: *The five aspects were: (a) relevant experience; (b) strategy and business management; (c) leadership, collaboration and cultural fit; (d) communication and influence; and (e) integrity and governance.*

Table 7

**Number of interviewers who had left blank the
detailed assessments on candidates
(2013-14 to 2019-20)**

Assessment recorded in Interview Assessment Form	No. of interviewers			
	Exercise A	Exercise B	Exercise C	Exercise D
All the five aspects (a)	2 (33%)	3 (75%)	1 (33%)	4 (80%)
None of the five aspects (b)	4 (67%)	1 (25%)	2 (67%)	1 (20%)
Total (c) = (a) + (b)	6 (100%)	4 (100%)	3 (100%)	5 (100%)

Source: Audit analysis of HKTB records

3.16 Audit considers that HKTB needs to take measures to ensure that recruitment exercises are conducted and properly documented in accordance with HKTB's Human Resources Policies and Procedures (i.e. proper completion of Declaration of Conflict of Interest and Interview Assessment Forms).

Information not furnished to the Inland Revenue Department (IRD) in a timely manner

3.17 In March 2020, a consultant commissioned by HKTB completed an assessment on HKTB's risk management and internal control systems.

3.18 The consultant found that HKTB had not put in place internal controls to ensure that notifications relating to staff were submitted in a timely manner to IRD as required by the Inland Revenue Ordinance (Cap. 112):

- (a) notifications for new employees required to be submitted not later than three months after the date of commencement of their employment; and
- (b) notifications for employees who ceased to be employed by HKTB required to be submitted not later than one month before the date of cessation of their employment.

3.19 In the period from April 2019 to June 2020, HKTB hired 66 new staff and 88 staff ceased to be employed by HKTB. Audit examined the submission records of the relevant notifications and noted that:

- (a) as at 31 August 2020, the notifications for 64 (97%) of the 66 new staff had not been submitted to IRD; and
- (b) the notifications for all of the 88 staff who ceased to be employed were submitted to IRD later than one month before the date of cessation (see Table 8).

Table 8

**Late submission of notifications for staff who ceased to be employed
(April 2019 to June 2020)**

Time of submission	No. of staff
Late by 1 to 30 days	27 (31%)
Late by 31 to 100 days	27 (31%)
Late by 101 to 333 days	34 (38%)
Total	88 (100%)

Source: Audit analysis of HKTB records

3.20 Audit considers that HKTB needs to take measures to ensure that notifications relating to staff are submitted to IRD according to requirements stipulated in the Inland Revenue Ordinance.

Audit recommendations

3.21 **Audit has recommended that ED, HKTB should:**

- (a) **take measures to ensure that recruitment exercises are conducted and properly documented in accordance with HKTB's Human Resources Policies and Procedures; and**

- (b) take measures to ensure that notifications relating to staff are submitted to IRD according to requirements stipulated in the Inland Revenue Ordinance.

Response from the Hong Kong Tourism Board

3.22 ED, HKTB agrees with the recommendation in paragraph 3.21(b) and also notes the recommendation in paragraph 3.21(a). He has said that:

- (a) the related procedures have been enhanced to ensure the proper documentation of the required documents in recruitment exercises. HKTB has at all times conducted its recruitment in accordance with the established policies and procedures; and
- (b) HKTB will continue its best effort to comply with the requirements stipulated in the Inland Revenue Ordinance.

Other administrative issues

Need to strengthen controls on hotel accommodation claims

3.23 According to HKTB's Financial Policies and Procedures (FPP), staff who is on duty travelling outside Hong Kong may be granted a subsistence allowance to cover expenditure of the trip. The staff can claim the actual cost of hotel accommodation up to 60% of the standard rate of subsistence allowance. With prior approval, a staff may claim an allowance at an enhanced rate equivalent to the actual cost of hotel accommodation plus 40% of the standard rate under the following circumstances:

- (a) it is necessary to stay in a particular hotel for operational reasons; or
- (b) cheaper hotel accommodation is not available.

3.24 In the period from 2015-16 to 2019-20, there were 952 subsistence allowance claims. Audit examined 16 of the 952 claims and noted that enhanced rates of subsistence allowance were granted for 10 (63%) of the 16 claims. Audit noted

that for 3 (30%) of the 10 claims, there was room for improvement in the information provided to support the claims:

- (a) for 2 claims, the justifications given were “the hotel is within walking distance to the venue and it is the best offer among the comparative quotes”. However, no information relating to the comparative quotes (e.g. the names of the hotels and their room rates) was provided to support the claims; and
- (b) for the remaining claim, the justification given was that the selected hotel was the cheaper of two hotels. The names of the two hotels and their room rates were provided. However, Audit noted that there were other hotels nearby, but information was not provided on the reasons why these hotels were not considered.

3.25 Audit considers that HKTB needs to take measures to ensure that detailed information is given by HKTB staff on duty travelling outside Hong Kong to support claims for enhanced rates of subsistence allowance.

Room for improvement in managing fixed assets

3.26 HKTB has issued a set of Fixed Asset Management Procedures (FAMP), which sets out the procedures for managing fixed assets. The recognition, stocktaking, disposal and loss of fixed assets should follow the guidelines set out in FAMP. FAMP stipulates that:

- (a) a physical stocktaking of fixed assets should be conducted at least once a year. During the stocktaking exercise:
 - (i) each user department/WWO has to identify the fixed assets in its office and mark on the fixed asset checking lists (Note 12) to signify that the physical existence of fixed assets had been checked; and

Note 12: *The fixed asset checking lists are records of the physical stocktaking exercise which recorded the name, location, item code, acquisition date and acquisition cost of the fixed assets held by user departments/WWOs.*

- (ii) reviewers from the Finance Department and the Information and Technology Department will select user departments on a rotational basis and check items recorded in the checking lists they used in stocktaking to the physical fixed assets. For WWOs, a reviewer will be assigned by the WWO to conduct the sample check;
- (b) the Head of the user department/WWO should take due care, use properly and arrange maintenance of the fixed assets under their custody to avoid damage or loss;
- (c) when fixed assets are identified to be missing or lost, the user department should report, within two weeks of such identification, by completing the Fixed Assets Loss Form for the approval of the Head of the user department/WWO before submitting the same to Finance Department for updating the Fixed Asset Register. For suspected theft, such losses should be reported to the Police; and
- (d) the staff designated to use personalised information technology related equipment will be personally responsible for the safe custody of such fixed assets. The staff is required to file a report for the approval of a superior at the level of Head of user department/WWO before arranging a replacement.

3.27 Audit reviewed the fixed asset management of HKTB and found the following room for improvement:

- (a) Audit examined the fixed assets stocktaking records for the period from 2015-16 to 2019-20 and found that the fixed assets checking lists of 6 (18%) of the 33 departments in HO had not been selected for checking by the reviewers from the Finance Department during the period; and
- (b) in September and October 2017, HKTB found that 30 items of portable electronic equipment (e.g. notebook computers, electronic tablets, smartphones and digital cameras) of two user departments could not be located. The total purchase cost and the net book value of the items were \$129,213 and \$9,235 respectively. However, the two user departments concerned had not completed the Fixed Assets Loss Forms until early November 2017 (for items that were found missing in September 2017) and

early November 2019 (for items that were found missing in October 2017) respectively, exceeding the two-week time limit set out in FAMP (see para. 3.26(c)). According to HKTB, the missing electronic tablets were suspected to be misplaced, and the missing notebook computers, smartphones and digital cameras were suspected to be disposed of during office removal without following proper disposal procedures. All the 30 missing items could not be located and were written off eventually.

3.28 Audit considers that HKTB needs to take measures to ensure that fixed assets are kept under proper custody to guard against damage or loss and take prompt and thorough follow-up actions for each case of loss.

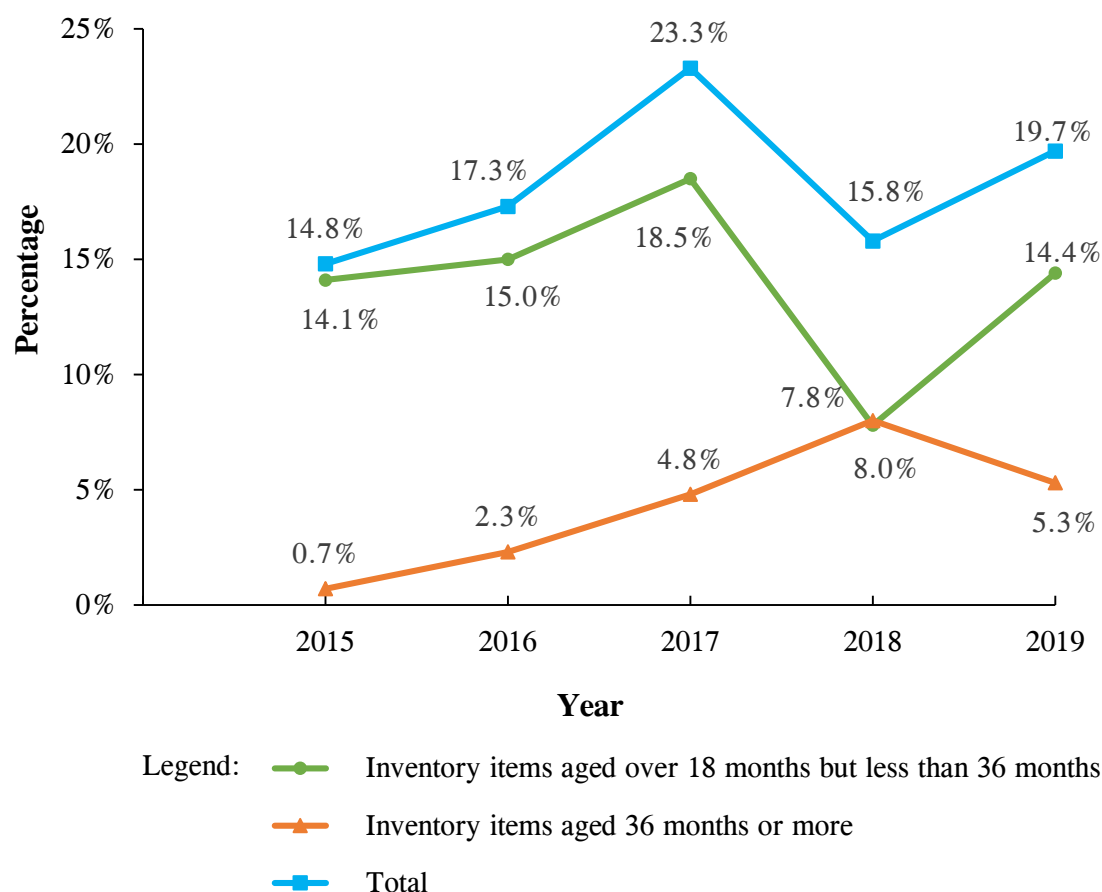
Need to closely monitor slow-moving inventories

3.29 HKTB produces publicity materials for distribution and promotion materials for its events. These items are stored in a warehouse managed by a contractor, who manages the warehouse on a daily basis and carries out a physical count of HKTB's inventories annually in the presence of HKTB's staff. HKTB classifies inventories aged over 18 months as slow-moving inventories. Audit analysed the age of the inventories for the period from 2015 to 2019 (see Figure 7) and noted that:

- (a) the percentage of the number of slow-moving inventories increased from 14.8% in 2015 to 19.7% in 2019; and
- (b) among the slow-moving inventories, some were aged much longer than 18 months. The percentage of such slow-moving inventories increased significantly during the period. For instance, the percentage of the number of inventories aged 36 months or more increased more than sixfold from 0.7% in 2015 to 5.3% in 2019.

Figure 7

**Analysis of percentage of number of slow-moving inventories
(2015 to 2019)**



Source: Audit analysis of HKTB records

3.30 In response to Audit's enquiry, HKTB informed Audit in August 2020 that:

- tightened inventory control measures had been introduced in June 2019, such as conducting full review of the whole inventory list and on-site visits at the warehouse to review the physical conditions of the inventories; and
- the slow-moving inventory mainly included the maps and brochures introducing restaurants and attractions in Hong Kong, and the consumables for organising marketing events.

3.31 Audit considers that HKTB needs to closely monitor the level of slow-moving inventories and conduct regular inventory clearing exercises to dispose of the inventories that are no longer required.

Audit recommendations

3.32 Audit has *recommended* that ED, HKTB should:

- (a) take measures to ensure that detailed information is given by HKTB staff on duty travelling outside Hong Kong to support claims for enhanced rates of subsistence allowance;
- (b) take measures to ensure that fixed assets are kept under proper custody to guard against damage or loss and take prompt and thorough follow-up actions for each case of loss; and
- (c) closely monitor the level of slow-moving inventories and conduct regular inventory clearing exercises to dispose of the inventories that are no longer required.

Response from the Hong Kong Tourism Board

3.33 ED, HKTB agrees with the recommendation in paragraph 3.32(a) and also notes the recommendations in paragraph 3.32(b) and (c). He has said that:

- (a) HKTB will review the guidelines to ensure that applications for enhanced subsistence allowances for hotel accommodation are only granted under the circumstances stipulated in FPP;
- (b) regarding the case cited in paragraph 3.27(b), it was agreed in the Audit Committee meeting that the lost items (most of which were fully depreciated) had been misplaced. A custodian system has been already put in place to enhance the control of fixed assets, especially mobile devices. HKTB will also review the internal guidelines to introduce stringent follow-up actions to protect its interest;

Human resource management and other administrative issues

- (c) HKTB will continue to monitor slow-moving inventories to ensure that warehouse occupancies are maintained at optimal levels; and
- (d) the trend of slow-moving inventories in Figure 7 of paragraph 3.29 is based on the number of items involved. It would be more appropriate to analyse the inventories based on the number of cubic metres they occupied, which has a strong correlation to stock levels and associated storage cost. Since the implementation of measures to tighten inventory control in June 2019, the overall stock level (in terms of the number of cubic metres) has been reduced by 17.9%. The increment in warehouse usage in 2017 was mainly due to a number of new events and happenings that year, which required more storage space for new stock items.

PART 4: WORLDWIDE OFFICES AND REPRESENTATIVE OFFICES

4.1 This PART examines WWOs and ROs of HKTB, focusing on the following areas:

- (a) establishment of WWOs and ROs (paras. 4.4 to 4.9); and
- (b) administrative issues relating to WWOs (paras. 4.10 to 4.20).

Background

4.2 As at 31 March 2020, HKTB had 15 WWOs and 7 ROs (see Figure 2 of para. 1.5). The WWOs had an establishment of 128 staff (Note 13). The WWOs are responsible for performing marketing activities in their regions. In 2019-20, the total recurrent cost of the WWOs was \$113.9 million, comprising staff cost of \$88.7 million and general and administration cost of \$25.2 million. The seven ROs are operated by agencies appointed by HKTB. The ROs are responsible for answering media and consumer enquiries, and performing marketing activities in their markets. In 2019-20, the total agency fee was \$4 million.

4.3 WWOs and ROs are organised into ten geographical regions. Each region has one to five WWOs/ROs (see Table 9).

Note 13: *As at 31 March 2020, the total staff establishment for managing WWOs and ROs was 134, of which 128 staff were stationed in WWOs and 6 in HO of Hong Kong.*

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Table 9

**Geographical regions of WWOs and ROs
(31 March 2020)**

Geographical region	WWO	RO
1. Australia, New Zealand and South Pacific	1. Sydney	—
2. Canada, Central and South Americas	2. Toronto	—
3. Europe <ul style="list-style-type: none"> • Central Europe • France and French speaking Europe • United Kingdom and Northern Europe 	3. Frankfurt 4. Paris 5. London	1. Moscow — —
4. Japan	6. Tokyo	—
5. Korea	7. Seoul	—
6. Mainland	8. Beijing 9. Chengdu 10. Guangzhou 11. Shanghai	—
7. South Asia and Middle East	—	2. Dubai 3. New Delhi
8. Southeast Asia	12. Singapore	4. Bangkok 5. Jakarta 6. Malaysia 7. Philippines
9. Taiwan	13. Taipei	—
10. United States of America	14. Los Angeles 15. New York	—

Source: Audit analysis of HKTB records

Establishment of Worldwide Offices and Representative Offices

Need to review regularly the establishment of WWOs and ROs

4.4 In 2008, HKTB conducted a review on the establishment of WWOs and ROs. In 2009, the Board approved a set of guidelines on criteria for setting up new and retaining existing WWOs/ROs, and decided that HKTB should conduct review on WWOs/ROs and their geographical coverage according to these guidelines once every two years (see Table 10).

Table 10

**HKTB's guidelines on criteria for setting up new
and retaining existing WWOs/ROs**

Criteria	WWOs	ROs
1. Market potential	• Mature	• Developing/emerging
2. Political and business environment	• Stable	• Relatively stable
3. Connectivity/facility	• Excellent	• Developing/good foundation and infrastructures
4. Concentration of travel trade and non-trade partners (e.g. Economic and Trade Offices of the Government)	• High	• High
5. Length of establishment	• Medium-long term to long term	• Short term

Source: Audit analysis of HKTB records

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4.5 Audit reviewed the performance of WWOs and ROs and noted the following:

- (a) ***Significant changes in market conditions since last review on the establishment of WWOs and ROs.*** For example, the number of overnight visitor arrivals from the Philippines increased significantly by 68% from 455,772 in 2009 to 764,536 in 2018; and
- (b) ***Recurrent cost of operating WWOs/ROs per visitor arrival varied among regions.*** Audit analysis of the recurrent cost of operating WWOs/ROs and number of visitor arrivals of the ten geographical regions revealed that the recurrent cost incurred per visitor arrival in 2018-19 varied significantly. For example, for the United States of America, Japan, Europe and Mainland, the figures were \$11.81, \$9.31, \$7.80 and \$0.42 respectively (see Table 11).

Table 11

**Recurrent cost incurred in operating WWOs and ROs per visitor arrival
(2018-19)**

Geographical region	Number of visitor arrivals (a) (No.)	Recurrent cost incurred (b) (\$ million)	Recurrent cost incurred per visitor arrival (c) = (b) ÷ (a) (\$)
Australia, New Zealand and South Pacific	713,003	7.92	11.11
Canada, Central and South Americas	561,336	4.48	7.98
Europe	1,929,804	15.06	7.80
Japan	1,320,464	12.29	9.31
Korea	1,444,475	5.61	3.88
Mainland	53,439,166	22.50	0.42
South Asia and Middle East	603,262	4.37	7.24
Southeast Asia	3,182,750	12.88	4.05
Taiwan	1,929,526	6.71	3.48
United States of America	1,308,532	15.46	11.81
Overall	66,432,318	107.28	1.61

Source: Audit analysis of HKTB records

4.6 According to HKTB, it has adopted a two-pronged approach in assessing the business potential of different markets, and developing the strategy for establishing WWOs/ROs:

- (a) ***Annual business planning process.*** During the annual business planning process, WWOs are required to give insights on the macro environment, performance trend and growth potential of the market under their purview. HKTb will assess and formulate plans for WWOs/ROs taking into account the insights of WWOs; and
- (b) ***Organisation review.*** HKTb also conducts regular organisation review to ensure that the structure of HKTb is effective in driving business strategies and the usage of manpower resources is optimal.

4.7 Audit noted that the annual business planning process only covered the potential of establishing new WWOs/ROs. From 2009 to 2018, despite the changes in the market conditions, the number and geographical coverage of WWOs remained unchanged, except for the upgrade of the Taipei RO to WWO in 2011 and the close down of the Osaka WWO in 2015. There was no documentary evidence showing that HKTb had conducted review every two years on WWOs/ROs according to the guidelines approved by the Board. As the global political and economic environment changes rapidly, Audit considers that HKTb needs to review every two years the need to set up new WWOs/ROs and whether existing WWOs/ROs should be retained according to the requirements and criteria promulgated in HKTb's guidelines (see para. 4.4).

Audit recommendation

4.8 Audit has *recommended* that ED, HKTb should review every two years the need to set up new WWOs/ROs and whether existing WWOs/ROs should be retained according to the requirements and criteria promulgated in HKTb's guidelines.

Response from the Hong Kong Tourism Board

4.9 ED, HKTb notes the audit recommendation. He has said that:

- (a) it is an established practice of HKTb that the annual business planning process and annual organisation review will take into account the role of WWOs;

- (b) HKTB is currently in the process of conducting a thorough review of the Hong Kong tourism brand and its overall promotion and market investment strategies; and
- (c) HKTB will ensure that the establishment of WWOs in different locations is aligned with its strategy and market prioritisation.

Administrative issues relating to WWOs

Room for improvement in accommodation arrangements

4.10 The 15 WWOs operate in leased premises. In 2019-20, the total accommodation costs of the WWOs (including mainly rent, management fee and maintenance expenses) amounted to \$17 million. Audit reviewed the accommodation arrangements of the WWOs and found room for improvement in the following areas:

- (a) when renewing the lease of a WWO, the WWO concerned is required to submit three quotations to the Staff and Finance Committee for approval. Audit noted that in some cases, the quotations obtained were not within the scope of the intended renewal. For example, when renewing the lease of the Seoul WWO in November 2019, one of the quotations submitted to the Staff and Finance Committee for consideration was for a premises with an area and rent of about six times and ten times respectively of the existing office. In response to Audit's enquiry, HKTB informed Audit in October 2020 that it had made efforts to identify available options that met the requirements of the renewal. It was common market practice to compare the rental information of available premises. The Seoul WWO office rent was compared with the smallest-sized options available in the nearby area at that time, and the option chosen was the one with the lowest rent. This was documented in the Staff and Finance Committee paper;
- (b) Audit noted that long leases of 9 to 10 years were arranged for the WWOs in London, Los Angeles, Paris and New York (see Table 12). For the WWO in Paris, there was a break clause to allow HKTB to terminate the lease at the end of the third, sixth and ninth year of the lease period. For the WWO in London, the break clause of the lease allowed HKTB to terminate the lease after leasing for five years. However, for the WWOs in Los Angeles and New York, the committed lease period was long:

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- (i) for the WWO in Los Angeles, the break clause of the lease only allowed HKTB to terminate the lease after leasing for seven years; and
- (ii) the 10-year lease of the New York WWO was inflexible. The New York WWO started using the existing premises under a 10-year lease commencing in June 2016 when it had an establishment of four staff. There was a break clause in the lease, but the break clause would only be exercisable if HKTB closed the New York WWO. In March 2020, the New York WWO was downsized to two staff. As the lease entered would not end until May 2026 (unless the New York WWO is closed), the office space cannot be rationalised for a considerable period of time.

According to HKTB, it has endeavored to safeguard its best interest. It is a common market practice in the United States of America and Europe to enter into long leases to get better deals from landlords, such as lower rent and free renovations. Break clauses have all along been incorporated in long lease contracts to give HKTB flexibility to terminate leases if necessary; and

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Table 12

**Lease contracts of WWOs
(30 June 2020)**

WWO	Lease period	Term (Years)
London	1.1.2015 — 31.12.2024	10
Los Angeles	1.11.2019 — 31.10.2029	10
New York	1.6.2016 — 31.5.2026	10
Paris	1.6.2020 — 31.5.2029	9
Beijing	1.6.2019 — 31.5.2024	5
Frankfurt	1.5.2016 — 30.4.2021	5
Singapore	1.5.2018 — 30.4.2023	5
Sydney	1.9.2019 — 31.8.2024	5
Taipei	16.2.2018 — 15.2.2023	5
Toronto	1.3.2018 — 28.2.2023	5
Chengdu	16.7.2017 — 15.7.2021	4
Seoul	1.4.2020 — 31.3.2023	3
Shanghai	1.6.2020 — 31.5.2023	3
Tokyo	1.4.2018 — 31.3.2021	3
Guangzhou	27.10.2019 — 26.10.2021	2

Source: Audit analysis of HKTB records

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- (c) the Administration User Guide issued by HKTb stipulates the office space occupied by each level of staff of HO in Hong Kong. However, HKTb had not promulgated guidelines on the accommodation arrangements (e.g. the area and grade of the office accommodations) of WWOs. The area of offices for WWO staff varied significantly among WWOs, ranging from 15.67 square metres per staff in Guangzhou to 65.31 square metres per staff in New York (see Table 13).

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Table 13

Analysis of office space and accommodation costs of WWOs (2019-20)

WWO	Office area (a) (square metre)	Staff establishment (b) (No.)	Office area per staff (c) = (a) ÷ (b) (square metre)	Accommodation cost (Note) (d) (\$'000)	Accommodation cost per square metre (e) = (d) ÷ (a) (\$'000)
New York	130.62	2	65.31	755	5.78
Taipei	400.27	9	44.47	997	2.49
Paris	74.00	2	37.00	466	6.30
Sydney	233.00	8	29.13	1,052	4.52
Frankfurt	115.00	4	28.75	291	2.53
Toronto	120.77	5	24.15	419	3.47
Tokyo	231.90	10	23.19	2,073	8.94
Los Angeles	247.87	11	22.53	1,452	5.86
Shanghai	265.40	12	22.12	1,160	4.37
Chengdu	121.00	6	20.17	217	1.79
Beijing	300.47	15	20.03	2,969	9.88
London	192.40	10	19.24	2,142	11.13
Seoul	148.76	8	18.60	658	4.42
Singapore	250.00	15	16.67	1,959	7.84
Guangzhou	172.42	11	15.67	402	2.33
Total		128		17,012	

Source: Audit analysis of HKTb records

Note: Accommodation cost mainly included rent, management fee and maintenance expenses.

Remarks: Information on the grades of the offices occupied by WWOs was not available from HKTb.

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4.11 Audit considers that HKTb needs to promulgate guidelines on the accommodation arrangements (e.g. the area and grade of office accommodations) of WWOs, taking into consideration local accommodation cost and business practices.

Need to review limits for entertainment expenses outside Hong Kong

4.12 According to FPP:

- (a) entertainment should be purposeful and be limited as far as possible to clients or associates of HKTb. Entertainment of suppliers should be kept to a minimum; and
- (b) if it is necessary to develop a better working relationship with the supplier, any entertainment should be done in moderation and must not be excessive.

4.13 The limits for entertainment expenses for different countries/regions are stipulated in FPP. Table 14 shows the limits for some major countries/regions.

Table 14

**Entertainment expense limits for major countries/regions outside Hong Kong
(31 March 2020)**

Country/Region	Lunch per head		Dinner per head	
	Foreign currency	Equivalent HK\$	Foreign currency	Equivalent HK\$
Russia	US\$93	725	US\$126	983
Japan	YEN9,653	697	YEN12,838	927
Germany	EURO60	562	EURO100	937
Korea	WON84,700	601	WON108,900	773
France	EURO55	515	EURO75	703
Australia	AUD89	515	AUD126	729
Mainland China	RMB450	510	RMB550	624
Vietnam	US\$56	437	US\$75	585
United States of America	US\$51	398	US\$81	632
United Kingdom	GBP37	385	GBP60	624

Source: Audit analysis of HKTB records

4.14 Audit noted that the entertainment expense limits were last reviewed in 2015 and HKTB had not reviewed the limits since then. Audit considers that HKTB needs to review the limits for entertainment expenses outside Hong Kong regularly to better reflect the changing price levels of respective countries/regions.

Need to encourage the use of video conferencing for conducting business planning meetings

4.15 Before the COVID-19 outbreak in early 2020, Regional Directors or Directors of WWOs travelled back to Hong Kong at least three times every year to attend the business planning meetings with the management of HO. The travelling

Worldwide Offices and Representative Offices

expenses for the Regional Directors and Directors including air tickets, accommodation and other allowances amounted to \$1.7 million in 2018-19.

4.16 Since the COVID-19 outbreak in early 2020, Regional Directors and Directors of WWOs were unable to travel back to Hong Kong as a result of the travel restrictions imposed by different countries/regions. As an alternative, they attended the business planning meetings through video conferencing.

4.17 According to HKTb, such mode of meeting generally served the original purpose and the operation of HKTb was not much affected. However, since it is important to ensure that WWOs' colleagues are equipped with the latest knowledge of Hong Kong and have first-hand experience of new products for promoting Hong Kong in the markets, HKTb rides on the business planning meetings in Hong Kong to arrange familiarisation tours and meetings with local trade partners for WWOs colleagues. HKTb will continue to minimise arranging physical business planning meetings with WWOs in Hong Kong, but cannot fully replace them with online meetings.

4.18 Audit recognises the limitations of video conferencing and the need for WWO staff to travel back to Hong Kong when necessary. In Audit's view, given the uncertainty as to when the COVID-19 outbreak will end and the successful experience of conducting the business planning meetings through video conferencing, HKTb needs to encourage staff to adopt such mode of meeting as far as practicable with a view to reducing the needs and related expenses for travelling back to Hong Kong for attending meetings.

Audit recommendations

4.19 **Audit has *recommended* that ED, HKTb should:**

- (a) **promulgate guidelines on the accommodation arrangements (e.g. the area and grade of office accommodations) of WWOs, taking into consideration local accommodation costs and business practices;**

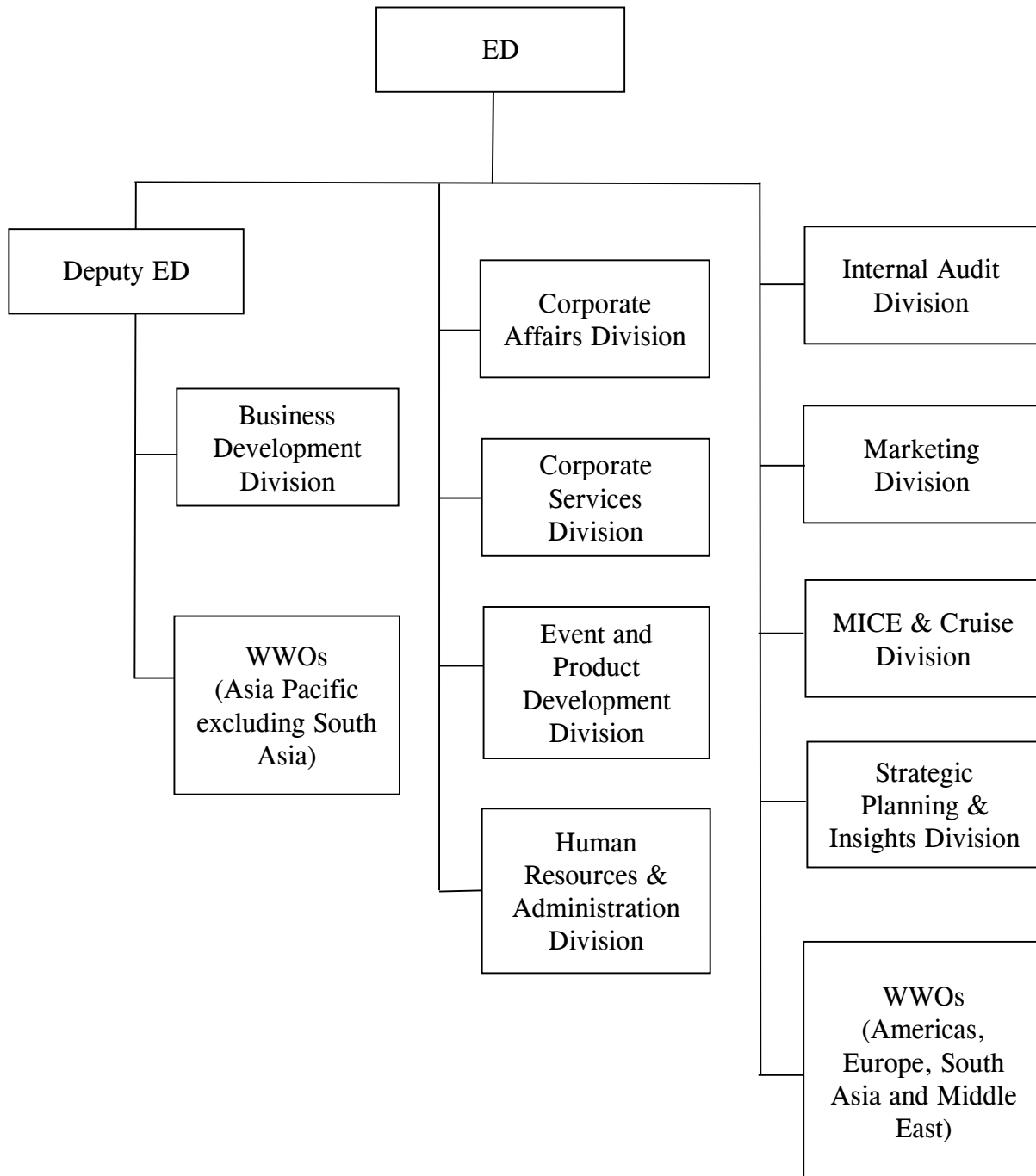
- (b) review the limits for entertainment expenses outside Hong Kong regularly to better reflect the changing price levels of respective countries/regions; and
- (c) encourage staff to use video conferencing for conducting business planning meetings as far as practicable with a view to reducing the needs and related expenses for travelling back to Hong Kong for attending meetings.

Response from the Hong Kong Tourism Board

4.20 ED, HKTb agrees with the recommendation in paragraph 4.19(b) and also notes the recommendations in paragraph 4.19(a) and (c). He has said that:

- (a) HKTb has at all times made every effort to optimise the utilisation of offices of WWOs. However, it is difficult to standardise the ratio of premises cost per member of staff across all WWOs as different offices have different space requirements, according to the nature of the local markets;
- (b) HKTb has referred to the Government's guidelines and benchmarked with other similar organisations in setting the entertainment expense limits for HO and WWOs. HKTb will conduct periodic reviews of the guidelines; and
- (c) HKTb has been using a variety of mediums, including video conferencing and in-person meetings in Hong Kong, to regularly discuss business plans with WWOs. While HKTb will do its best to minimise the number of in-person meetings in Hong Kong, it is not feasible to fully replace them with online meetings as there is a need for WWO employees to ride on the business planning meetings in Hong Kong to meet local trade partners and gain first-hand experience of the latest tourism products in Hong Kong for effective promotion planning. On average, the cost for each employee per trip for this purpose was \$10,000, which is regarded as reasonable.

Hong Kong Tourism Board: Organisation chart (extract)
(31 March 2020)



Source: HKTB records

**Marketing expenditure analysed by strategic focuses
(2014-15 to 2018-19)**

Strategic focus	2014-15	2015-16	2016-17	2017-18	2018-19
	(\$ million)				
1. Consolidate “Hong Kong — Asia’s World City” brand and step up public relations promotions	79.2	68.9	80.1	69.5	87.9
2. Intensify digital marketing	52.3	77.7	129.1	82.6	118.4
3. Strengthen the appeal of mega events	114.5	168.3	155.4	260.8	240.9
4. Promote Hong Kong as the hub for multi-destination travel in the region	2.9	4.3	3.3	3.0	20.0
5. Drive MICE business	28.6	35.8	51.5	56.8	76.1
6. Build cruise demand	18.0	14.2	20.7	27.4	27.2
7. Strengthen trade support and partnerships	43.4	66.3	69.4	74.7	83.1
8. Maintain quality service	10.8	15.5	23.6	18.5	23.5
9. Uphold corporate governance (Note 1)	18.2	17.9	22.8	20.3	22.1
10. Others (Note 2)	4.6	4.4	5.6	4.5	4.6
Total	372.6	473.3	561.6	618.1	704.1

Source: HKTB records

Note 1: The strategic focus of upholding corporate governance included resource management, financial management, application of information technology, visitor surveys and strategic planning.

Note 2: Others included amounts reserved for non-key markets and agency fees.

Remarks: Owing to rounding, the total might differ from the sum of the individual figures shown.

Acronyms and abbreviations

Audit	Audit Commission
BPIs	Business performance indicators
CE	Chief Executive
CEDB	Commerce and Economic Development Bureau
COR	Controlling Officer's Report
CR	Compa-ratio
ED	Executive Director
FAMP	Fixed Asset Management Procedures
FPP	Financial Policies and Procedures
HKTA	Hong Kong Tourist Association
HKTB	Hong Kong Tourism Board
HO	Head Office
IRD	Inland Revenue Department
KPIs	Key performance indicators
MAA	Memorandum of Administrative Arrangements
MICE	Meetings, incentives, conventions and exhibitions
RO	Representative Office
TC	Tourism Commission
WWO	Worldwide Office