

# HONG KONG TOURISM BOARD: CORPORATE GOVERNANCE AND ADMINISTRATIVE ISSUES

## Executive Summary

1. The Hong Kong Tourism Board (HKTB) is a government-subsidized 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.