

THE GOVERNMENT MINUTE

in response to the

**REPORT NO. 49A OF
THE PUBLIC ACCOUNTS COMMITTEE**

dated April 2008

9 July 2008

**THE GOVERNMENT MINUTE IN RESPONSE TO THE
PUBLIC ACCOUNTS COMMITTEE (PAC) REPORT NO. 49A
DATED APRIL 2008**

**REPORT ON THE RESULTS OF VALUE FOR
MONEY AUDITS (Report No. 49)**

Hong Kong Tourism Board: Corporate governance and administrative issues
Hong Kong Tourism Board: Planning, execution and evaluation of marketing
activities (Part 4 of PAC Report No. 49A)

The Administration and the Hong Kong Tourism Board (HKTB) agree that there is room for improving corporate governance as well as internal control and management of the HKTB. Both the Administration and the HKTB have taken measures in view of the recommendations made by the Director of Audit (DoA) and the PAC.

2. The Administration has formulated additional systemic arrangements with the HKTB to improve the latter's business planning and budget approval process. To enhance monitoring and internal control, the Administration has asked the HKTB to strengthen the existing mechanism whereby the reports and follow-up actions for cases of non-compliance of procedures are submitted to the Board of the HKTB. Accordingly, the HKTB is formalising the mechanism whereby cases of violation of internal rules, if any, will be reported regularly to the Board of the HKTB or its relevant Committee, and has undertaken to take appropriate follow up actions according to the seriousness of individual cases.

3. The HKTB has already implemented 63 improvement measures encompassing corporate governance, administrative issues as well as planning, execution and evaluation of marketing activities. Another 12 improvement measures will be completed within the financial year of 2008-09. The Administration will continue to monitor the HKTB's operations and progress in implementing these improvement measures for the purpose of prudent use of public resources.

Review of the role and responsibility of the government officials sitting on the governing bodies and committees of publicly-funded statutory organisations

4. The Administration is finalizing its review of the role and responsibility of government officials sitting on the governing bodies of publicly-funded/government-owned statutory bodies/companies. The report will be submitted to the PAC soon. The coverage of the limited review, which was undertaken originally in response to the PAC report on Hong Kong Applied Science and

Technology Research Institute Company Limited, initially included three categories of corporations/companies: (a) government-owned statutory corporations, (b) government-owned companies, and (c) non-government-owned companies. As a positive response to the PAC's recommendation in the HKTB report, the scope of the review is expanded to include statutory bodies which are government-owned or under recurrent funding from the Government, and companies which are partly or wholly funded by the Government. The review is also expanded to examine measures to ensure that good corporate governance and management are in place in publicly-funded statutory organisations.

5. In the context of the HKTB, section 9 of the HKTB Ordinance (Cap 302) provides for the appointment of 20 members including a Chairman and a Deputy Chairman to the HKTB. The Deputy Chairman will act as the Chairman when the Chairman is unable to carry out his duties due to injury, illness or absence from Hong Kong. The Commissioner for Tourism (CT) was first appointed as a member of the HKTB on 1 April 2001 and since 1 April 2002, CT has been appointed as the Deputy Chairman of the Board. As provided under the HKTB Ordinance, CT, in common with other members of the Board, is to pursue the HKTB's statutory objects, and to exercise collectively the powers of the HKTB as stipulated in the HKTB Ordinance. These include, amongst other, drawing up the HKTB's budget and ensuring the proper use of public funds allocated to the HKTB. Together with other members of the Board, CT seeks to ensure that adequate internal procedures and processes are in place to achieve good corporate governance. In performing these functions, CT shares her views with the Board, its Committees and the Management on the Management's proposals and their implementation progress, based on the information provided by the Management. It is the responsibility of the senior management to ensure compliance and report any exceptions to the Board.

6. In accordance with section 9 of the HKTB Ordinance, as the Deputy Chairman, CT is expected to act in the office of the Chairman if the office is vacant or if the Chairman is incapacitated by injury or illness, or is absent from Hong Kong. In addition, CT serves as a link between the HKTB and the Administration in explaining Government's tourism and related policies, and supports the HKTB in its promotion of Hong Kong as a world class tourist destination by reference to such policies. The CT will continue to discharge these roles and responsibilities.

The PAC's recommendation about ensuring that Controlling Officers for publicly-funded organisations effectively perform their roles and responsibilities

7. In accordance with the Public Finance Ordinance, Controlling Officers are responsible and accountable for the proper use of public funds under their control. To help Controlling Officers to discharge their funding control responsibility over subvented organisations, including publicly-funded statutory organisations, the Administration has issued Financial Circular No. 9/2004: Guidelines on the

Management and Control of Government Funding for Subvented Organisations (the Circular), which contains a wide range of measures which Controlling Officers may use to carry out their roles and discharge their funding control responsibility.

8. By making reference to the guidelines in the Circular, Controlling Officers have in general exercised effective funding control over the subvented organisations under their purview. The Administration believes that under the general framework set out in Financial Circular 9/2004, Controlling Officers should be able to take the necessary measures to carry out their roles and responsibilities and to ensure that public money is used properly and effectively.

9. On the mechanism for designated government representatives to report major matters or problems of the organisations to the responsible bureau secretaries and/or Controlling Officers, the Circular has clearly set out the requirement that Controlling Officers should have unhindered access to the records and accounts of the subvented organisations and the latter are obliged to explain to the Controlling Officer concerned any matters relating to the receipt and expenditure of any money derived from public funds. Under the existing framework, therefore, Controlling Officers should be able to put in place the necessary mechanism to meet the reporting requirements.

10. In the case of the HKTB, from time to time CT reports to and seeks guidance from the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT), who is the Controlling Officer for funds allocated to the HKTB, on matters concerning the HKTB, including its budget proposals and its use of public funds. In doing so, CT supports the Controlling Officer for the subvention to the HKTB. The Administration has asked the HKTB to provide quarterly reports to the Controlling Officer on its work and use of the subvention. Through such regular reporting, the Controlling Officer would be better informed of major matters or problems of the HKTB that warrant her attention, thereby helping the Controlling Officer to perform her role. The business planning and budget approval framework has been clearly set out in the HKTB Ordinance. The Secretary for Commerce and Economic Development (SCED) has appointed 28 February as the date before which the HKTB has to submit its programme of activities and estimates of its income and expenditure for his approval. The Government has also agreed with the HKTB on the essential steps including discussion on resource requirements, consultation with stakeholders, etc. to ensure compliance with the specified date. The HKTB has introduced various measures to enhance internal controls on the use of public resources, details of which are included in Enclosure 1. With these arrangements and any necessary steps considered appropriate after the promulgation of a new circular by the Director of Administration on the governance framework for publicly-funded statutory bodies, there should be sufficient measures for the Controlling Officer to discharge her responsibility to ensure that the HKTB uses the public funds allocated to it properly.

Encl. 1

The PAC's recommendation about clearly stating the intended roles and responsibilities of government representatives and other members appointed to sit on the governing bodies of these organisations when appointing them

11. The Administration would advise Bureaux and Departments to clearly spell out the intended roles and responsibilities of government representatives and other members appointed to sit on the governing bodies of these organisations when appointing them.

12. In the case of the HKTB, besides the general common law obligations of company directors, section 4 of the HKTB Ordinance sets out the specific objectives of the HKTB and it is the responsibility of the Board to further such statutory objectives. In view of the PAC's recommendation, we have invited the HKTB to review the operation of the four committees established under the Board with a view to strengthening corporate governance and the mechanism for the committees to advise the Board. The HKTB aims to complete the review in the financial year of 2008-09.

Measures to ensure that members of governing bodies and the chief executive officers of publicly-funded statutory organisations effectively perform their roles and responsibilities

13. As subvented organisations are not government departments, the government rules and regulations are not directly applicable to them. Nevertheless, subvented organisations have the same duty to ensure the proper use of public funds, having regard to the economy, efficiency and effectiveness in discharging their functions. To help the CEOs and senior management of these organisations to have better understanding of the legislation, regulations and policies which are relevant to them for the control and management of public finances, Controlling Officers can conduct training programmes and deliver resource kits. Alternatively, Controlling Officers can provide relevant information in a tailor-made funding control instrument and update such information as necessary.

14. In the case of the HKTB, the HKTB senior management should have sound knowledge of relevant statutory requirements, including those in the HKTB Ordinance and the Public Finance Ordinance, and advise the Board exceptions to the due process and procedures governing the day-to-day use of public resources. The HKTB management and its Board are supported by an internal legal advisor who might tender advice on the HKTB's compliance with relevant legislation in discharging its functions. The Deputy Executive Director's duty list also specifically includes overseeing of the "legal counsel, systems and process management". This notwithstanding, in order to help the senior management in the familiarisation process and in view of the PAC's recommendation, the Tourism Commission will, with immediate effect, conduct briefings for senior staff of the HKTB at General Manager level or above on Government's expectation relating to the compliance of relevant due processes/procedures governing the use of public funding and provide them with

relevant Government documents and guidelines in this respect. Also, in view of the PAC's recommendation, we have invited the HKTB to stipulate, as a core competence, reasonable knowledge of corporate governance and management of organisation, in its future recruitment of senior management.

The progress made by the HKTB in developing specific guidelines on the authority to enter into sponsorship agreements

15. The HKTB is developing specific guidelines on the authority to enter into sponsorship agreements, in particular the arrangement for those agreements that involve a substantial amount of money and span across more than one year. The HKTB aims to complete the guidelines in the third quarter of 2008.

The result of the HKTB's consideration of whether it can recover the difference in premium between the executive medical plan and the medical and dental insurance plans specified in the Employees' Handbook

16. The HKTB followed up this recommendation of the PAC. It announced on 20 June 2008 that its former Executive Director paid to the HKTB the difference in premium.

The Administration's decision on the PAC's recommendation about whether the case concerning the provision of the executive medical plan should be referred to any law enforcement agency for follow-up action

17. In view of the PAC's recommendation and information provided by relevant personnel at the PAC hearings, the Administration referred the case to the law enforcement agencies in April 2008 for possible follow-up action.

Further developments and progress made in implementing the various audit recommendations

18. Further developments and progress made by the HKTB and the Administration in implementing the various audit recommendations are set out at Enclosures 1 and 2 respectively.

Encls.
1 & 2

Follow up Actions on Report No. 49 of the Director of Audit (DoA) – Chapter 5

	DoA's Recommendations	HKTB's Response in October 2007	Progress To date
Corporate Governance			
1	Consider formalising the long-term strategic planning process and drawing up a separate long-term Corporate Plan to set out its mission, vision, long-term objectives and key results areas to be achieved.	<p>HKTB is committed to continuing the strengthening of its long-term strategic planning process by:</p> <ul style="list-style-type: none"> (a) conduct assessment of its long-term plan annually; (b) prepare a rolling 3-year business roadmap annually; and (c) continue the preparation of an annual Business Plan. <p>HKTB will give consideration to separate the Corporate Plan from the annual Business Plan and Budget.</p>	Completed. HKTB has incorporated the three-year outlook and strategies in the Annual Business Plan and Budget starting from 2008/09, which will be reviewed and updated annually.
2	Review the arrangement of appointing HKTB management as members of the Committees.	Since September 2007, HKTB management has ceased to be members of the Staff & Finance Committee (S&FC) and the Product & Event Committee.	Completed.
3	<ul style="list-style-type: none"> (a) Monitor the attendance of members at Board/Committee meetings and ascertain the reasons for low attendance. (b) Take action to improve the attendance of members at Board/Committee meetings. 	<p>HKTB agrees with the audit recommendations and has implemented the following measures:</p> <ul style="list-style-type: none"> (a) attendance records of members at Board/Committee meetings in the past six months are provided to members to serve as a reminder to members about their attendance and similar reminders will be sent to members every six months thereafter; (b) with the Board's approval, records of members' attendance will be disclosed; (c) to facilitate members' participation facilities for conference calls will be arranged during meetings and in case members are not available for the meetings, HKTB will actively invite their written comments; (d) include number and frequency of meetings for individual committees in the Terms of Reference of the respective 	<ul style="list-style-type: none"> (a) Completed. (b) In progress. HKTB has taken a series of actions to monitor and improve the attendance of members at Board/Committee meetings. HKTB has provided members with their attendance records every six months, installed telecommunication equipments for conference calls, revised individual committees' terms of reference to include the number and frequency of meetings, and invited members who were not available for meeting to provide written comments. HKTB will report on disclosure of

	DoA's Recommendations	HKTB's Response in October 2007	Progress To date
		Committee, and the existing arrangement of setting tentative dates for the Board meetings at the beginning of each year will continue so that members can make arrangements in advance.	members' attendance records after the Board has discussed this item.
4	Formalise the rules and procedures for the proceedings at HKTB Board meetings; and consider revising the quorum of a HKTB Board meeting.	The rules and procedures for the proceedings of the Board meetings set out in HKTB Board Members Information Manual have already been formally adopted and HKTB will review the quorum of HKTB Board meeting in consultation with Board members.	Completed. The practices and procedures set out in HKTB Board Members Information Manual have been adopted since September 2007. The Board meeting quorum has been revised to 7 members.
5	Comply with the four-day requirement for dispatching papers for Board/Committee meetings.	HKTB has always strived to adhere to the requirement of dispatching papers to Board members four days before a meeting, except in the case of unforeseen urgent matters. HKTB will continue to make its best effort to ensure this is achieved.	Completed.
6	Ensure that draft minutes for Board/Committee meetings are issued to members for comments as soon as possible.	Minutes of the Board/Committee meetings will be circulated separately to members within three weeks of the respective meeting.	Completed.
7	<p>(a) To ensure that declaration of interests forms are submitted and signed by all Board members.</p> <p>(b) For the three members of the Board who had not submitted the declaration of interest forms, check whether there were situations of conflict of interest on matters approved by them during the periods for which they had not submitted the forms.</p>	<p>(a) All current Board members have already submitted their declaration of interest form. They have been reminded of the completion of their annual declaration of interest form in time and that the Board secretary would follow up the return closely.</p> <p>(b) For two ex-Board members who did not submit their declaration of interest forms and for one current Board member who did not submit his declaration of interest form for previous years, HKTB has checked and confirmed that there was no situation of conflict of interest on matters approved by them during the periods for which they had not submitted the forms.</p>	(a) and (b) Completed.

	DoA's Recommendations	HKTB's Response in October 2007	Progress To date
Performance Measurement And Reporting			
8	<p>(a) Consider enhancing its performance measures in the annual Business Plan and Budget, making reference to good practices and performance measures adopted by leading National Tourism Organisations (NTOs).</p> <p>(b) Improve the reporting of performance measures by publishing the laid-down performance measures in annual report.</p>	<p>HKTB has continuously enhanced its performance measures regularly making reference to best practices of international bodies and NTO. In addition to the Key Performance Indicators (KPIs), HKTB monitors a number of indicators to measure the performance of its marketing activities and review on a regular basis the relevancy of these indicators to its marketing activities.</p> <p>HKTB will include the KPIs reported in the Controlling Officer's Report of the Commerce and Economic Development Bureau, and the actual performance against these indicators, in future annual reports.</p>	<p>(a) In progress. HKTB is reviewing its performance indicators in consultation with academics and the trade to enhance performance measurement of its marketing activities. Target completion date is September 2008.</p> <p>(b) Completed.</p>
9	Complete the preparation of its annual report for tabling in LegCo at an early date, after the end of each financial year.	Complete the preparation of the annual report for tabling in LegCo within nine months after the end of each financial year.	Completed.
Remuneration And Recruitment			
10	Ensure that there are good reasons for allowing staff to receive a salary higher than the maximum of their respective salary ranges.	HKTB will continue to identify ways to resolve such cases.	In progress. There is only one remaining case where a staff member receives salaries higher than the maximum of the staff's salary range. HKTB will resolve it by April 2009.
11	Seek the direction of the Board concerning the introduction of the arrangement of converting the 13 th month pay into a performance-based	HKTB will submit a proposal to the Board to close this outstanding issue within 2007/08 financial year.	Completed. HKTB submitted the proposal to the Board on 24 January 2008 and obtained the Board's approval to drop the proposal in converting the 13 th month

	DoA's Recommendations	HKTB's Response in October 2007	Progress To date
	variable payment.		salary into a performance-based variable payment having regard that staff contracts currently specify payment of the 13 th month salary and the keen competition for talent in the travel industry.
12	<p>(a) Ensure that all terms and conditions of employment are incorporated into the employment contracts for approval by the appropriate authority.</p> <p>(b) For future employment contracts to be entered into with the ED or the DED, forward the draft contracts to the Tourism Commission (TC) in advance for necessary action.</p> <p>(c) Review the need for inclusion of break clauses in the senior staff employment contracts to provide for the employee's eligibility for contract gratuity, taking into account the importance of maintaining continuity of senior management.</p>	<p>(a) All the terms and conditions of employment for the current Executive Director (ED) and the Deputy Executive Director (DED) have been incorporated into the employment contracts for approval by the Board and the Government.</p> <p>(b) The draft employment contracts for the current ED and DED have already been forwarded to the TC in advance.</p> <p>(c) No break clause has been included in senior staff's employment contracts since April 2007.</p>	(a) to (c) Completed.
13	<p>(a) Clearly spell out and document the specific performance targets for determining the award of the performance-based variable</p>	<p>(a) The specific performance targets of senior executives (Band A staff)¹ have all along been documented comprehensively in HKTB annual Business Plan, which is used as the yardstick to assess the staff's performance and determine their variable pay</p>	(a) to (c) Completed. HKTB has reviewed the Performance Management System and the Variable Pay (VP) Mechanism for Band A staff. Under the new system, assessment criteria include Key

¹ Note : Band A staff refers to staff who are of the General Manager Grade or above.

	DoA's Recommendations	HKTB's Response in October 2007	Progress To date
	<p>payments to senior executives.</p> <p>(b) Set out guidelines for determining the award of performance-based variable payments, including a mechanism for reducing the performance-based variable payments to take account of non-achievement of certain performance targets.</p> <p>(c) Ensure that the performance appraisal reports of senior staff are completed as soon as possible after the year under review.</p>	<p>at year end.</p> <p>(b) To strengthen the performance evaluation process and to better reflect the performance of staff, HKTB new management is working on introducing a performance appraisal system for Band A staff that includes overall company's and functional specific deliverables. Under the new system, the variable pay of all Band A staff will be subject to the approval of the Remuneration Review Committee.</p> <p>(c) Senior staff will be reminded to observe the timelines and complete their performance appraisal reports within one month after the year has ended.</p>	<p>Performance Indicators, Key Strategic Focus and Competencies' appraisal ratings. In addition, with effect from 31 May 2007 variable payments of all Band A staff require the approval of the Remuneration Review Committee. From April 2008, all Band A staff members' performance appraisal reports must be completed within one month after the year end.</p>
14	<p>Conduct a review of the acting allowance policy as soon as possible, taking into account market practices and the need to economise on the use of public money.</p>	<p>HKTB agrees with the recommendation and has abolished the granting of acting allowances since September 2007.</p>	<p>Completed.</p>
15	<p>Consider inviting the Board to approve the provision of parking spaces to its senior staff.</p>	<p>HKTB agrees with the recommendation. No parking spaces will be provided to senior staff without the prior approval of the Board and any benefit beyond the contractual provision or without the approval of the Board will not be provided to staff.</p>	<p>Completed.</p>
16	<p>(a) Ensure that selection interviews are only conducted by eligible staff.</p> <p>(b) Specify in the Human Resources Policies and Procedures (HRPP) the circumstances under which staff selection interviews would be conducted by recruitment</p>	<p>HKTB has adopted an open and fair recruitment system, and all selection interviews are conducted by eligible staff of HKTB. HKTB will specify in the HRPP that panel interview will be used for the recruitment of Senior Manager and above. HKTB has already implemented a log sheet system to record the number of applicants and shortlisted candidates. As for the shortlisting criteria, the management has started to document the shortlisting criteria for future recruitment cases.</p>	<p>(a) to (c) Completed. HKTB has adopted an open and fair recruitment system and all interviews are conducted by eligible staff. HKTB has reviewed and updated the HRPP and adopted panel interview for the recruitment of positions of Senior Manager and above. Also, HKTB has documented the information on the number of applicants and candidates shortlisted for</p>

	DoA's Recommendations	HKTB's Response in October 2007	Progress To date
	<p>panels.</p> <p>(c) Ensure that the information about the number of applicants and candidates shortlisted for interview, and the shortlisting criteria, are documented.</p>		<p>interview, and the shortlisting criteria for all recruitment cases.</p>
Procurement Matters			
17	<p>(a) Taking into account the Government's guidelines, consider:</p> <p>(i) reviewing its marking scheme guidelines under the Financial Policies and Procedures (FPP), particularly the normal weightings for the technical score and the price score;</p> <p>(ii) adopting open tendering for procurement with value exceeding a certain amount.</p> <p>(b) Obtain prior approval from the appropriate authority for contract variations and provide full justifications for making the variations.</p> <p>(c) Ensure that staff strictly comply with the FPP. Where there is a need to make exceptions, the justifications should be</p>	<p>(a) HKTB will review the procurement procedures and make recommendations to the Board.</p> <p>(b) All staff have been reminded to obtain prior approval from the appropriate authority for the projected aggregate amount arising from the contract variations and provide full justifications for making the variations.</p> <p>(c) Regular briefings on procurement matters and FPP have been arranged for staff. HKTB will continue to ensure strict compliance of the FPP.</p>	<p>(a) (i) Completed. Revised marking scheme guidelines have been approved by the Board in June 2008.</p> <p>(a) (ii) In progress. HKTB is working on the procedure for open tendering. Target completion date is by end 2008.</p> <p>(b) Completed.</p> <p>(c) Completed.</p>

	DoA's Recommendations	HKTB's Response in October 2007	Progress To date
	documented and submitted for approval by the appropriate authority.		
Other Administrative Issues			
18	<p>(a) Improve the control for project-related entertainment expenses.</p> <p>(b) Maintain separate accounts for entertainment expenses to record the amounts incurred for budgetary control purpose.</p> <p>(c) Ensure that staff observe the cost-per-head spending limits. In cases where the spending limits are exceeded, justifications should be documented and prior approval should be obtained from the appropriate authority.</p> <p>(d) Review the justifications for the payment of entertainment expenses involving HKTB staff only.</p>	<p>(a) HKTB will effect a procedural change within this financial year to separate the food and beverage expenses of projects and events from ordinary entertainment expenses and submit to S&FC for approval.</p> <p>(b) For project-related entertainment expenses, by working out the food and beverage budget for each project under the proposed new policy, HKTB can account for the expenses incurred.</p> <p>(c) For general entertainment, compliance will be enforced and staff have been reminded to observe the cost-per-head spending limit and to obtain prior approval with written justifications for cases where it is foreseen that the spending limits will be exceeded.</p> <p>(d) HKTB has approved that staff will no longer be allowed to claim for expenses on having meals together.</p>	<p>(a) and (b) In progress. HKTB will effect policy and procedure changes to manage and account for food and beverage expenses of projects and events and separate those from ordinary entertainment expenses. Target completion by Q3/2008.</p> <p>(c) Completed. HKTB has reminded its staff to observe the cost-per-head spending limit on entertainment and to obtain prior approval with written justifications for cases where the spending limit is foreseen to be exceeded. In addition, a non-compliance report would be submitted to the DED for review regularly.</p> <p>(d) Completed. Recommendation has been implemented since 1 October 2007.</p>

	DoA's Recommendations	HKTB's Response in October 2007	Progress To date
19	<p>(a) Improve the control for project-related business travel expenses.</p> <p>(b) Maintain separate accounts for business travel expenses to record the amounts incurred for budgetary control purpose.</p> <p>(c) Ensure that staff comply with the FPP requirement of obtaining prior approval for business travel.</p> <p>(d) Ensure that air tickets are procured only after approval is obtained.</p> <p>(e) Having regard to the practices of the Government, review the present arrangement for staff at the rank of General Manager (or equivalent) to travel by business class for overseas duty visits.</p>	<p>(a) Respective project owners will be required to estimate the budget for each activity under a project, business travel being one, for control purposes.</p> <p>(b) For project-related business travel, by working out the duty travel budget for each project under the new policy, the HKTB can account for the expenses incurred.</p> <p>(c) HKTB staff who may be required to take up duty travel have been reminded of strict compliance with the respective policy in FPP and the requirement for prior approval for duty travel.</p> <p>(d) The FPP will re-emphasise that flight reservation can only be confirmed after approval has been obtained.</p> <p>(e) HKTB is conducting a benchmarking study with comparable organisations with a view to re-issuing guidelines on business travel that will not be any more favourable than those adopted by comparable organisations.</p>	<p>(a) and (b) In progress. HKTB will effect policy and procedural changes to account for project-related business travel expenses. Target completion by Q3/2008.</p> <p>(c) to (e) Completed. HKTB has benchmarked its guidelines on travel class entitlement with comparable organisations and issued a revised guidelines on 1 February 2008. Under the new guidelines, General Managers are allowed to travel by Business Class only if the travelling time is more than 9 hours. HKTB had reminded its staff to strictly follow the requirement in obtaining prior approval for duty travel and for air ticket procurement. In addition, a non-compliance report would be submitted to DED of the HKTB for review regularly.</p>

Hong Kong Tourism Board
Follow up Actions on Report No. 49 of the DoA – Chapter 6

	DoA's Recommendations	HKTB's Response in October 2007	Progress to Date
Planning of Marketing Activities			
1.	Consider conducting a formal consultation forum to gauge the views of key stakeholders of the tourism industry before its Business Plan and Budget is finalised.	HKTB agrees with the audit recommendation. In addition to the existing practice of conducting prior consultation with key travel trade stakeholders, the HKTB has planned to extend the consultation on HKTB's plans and strategies to other trade stakeholders, such as retail and catering industries, as well as relevant academics, starting from 2007-08. It is going to formalise the consultation and engagement process, such as through regular forums, with travel and travel-related industry stakeholders and summarise the feedbacks gathered to the respective Committees of the Board.	Completed. HKTB has extended the consultation to other trade stakeholders. HKTB has formalised the consultation and engagement process. Consultation and communication sessions with both travel and non-travel trades were held in the fourth quarter of 2007 and first quarter of 2008. HKTB will submit a summary of the feedback to the respective Committees by Q3/2008.
2.	<p>(a) Consider regularly reviewing the mix of arrivals from different markets having regard to the HKTB strategy of maintaining a balanced portfolio of visitors.</p> <p>(b) Consider setting out the Return on Investment (ROI) for various markets in its annual Business Plan and Budget as an objective means for the allocation of marketing resources.</p>	<p>(a) HKTB has considered DoA's recommendations. HKTB has constantly monitored the mix of arrivals from different markets and considers the current mix appropriate.</p> <p>(b) The ROI for each market has been set out in HKTB's annual Business Plan & Budget in terms of the four key performance indicators (KPIs), including visitor arrivals and per capita spending, and reviewed twice a year.</p>	<p>(a) Completed.</p> <p>(b) Completed.</p>

	DoA's Recommendations	HKTB's Response in October 2007	Progress to Date
Worldwide Offices And Representative Offices			
3.	<p>HKTB to consider -</p> <p>(a) laying down guidelines and objective criteria for determining the establishment of Worldwide Offices (WWOs) and Representative Offices in overseas markets;</p> <p>(b) Periodically review the set up of World WWOs having regard to relevant pre-determined criteria.</p>	<p>HKTB is committed to constantly reviewing the establishment of its WWOs and Representative Offices so as to take into account the changing market conditions and to tie in with its marketing strategies. HKTB has also responded that it will take into consideration various factors and criteria to closely monitor the development of the source markets and reviews the need to establish a WWO or Representative Office. Recommendations will be submitted to the Board for consideration and approval.</p>	<p>(a) and (b) In progress. Target completion date is end 2008.</p>
4.	<p>(a) Conduct regular reviews of the staff establishments of the WWOs in the Mainland, having regard to the number of Individual Visit Scheme (IVS) cities and their market potential.</p> <p>(b) For those IVS cities not yet classified as high potential cities, consider whether specific marketing strategies and programmes need to be developed for them.</p> <p>(c) In view of the rapid expansion of the economy of Mainland, conduct regular reviews of the market potential of selected Mainland cities, including all IVS cities.</p>	<p>HKTB has formulated comprehensive marketing plans and strategies for the Mainland based on regionalisation and prioritisation. In addition, HKTB regularly monitored the operational need of each market in determining the staff resources in each market.</p>	<p>(a) to (c) Completed.</p>
5.	<p>(a) Review the reasons for the low utilisation of the Beijing visitor information and service (VIS) centre and take measures to improve its utilization.</p> <p>(b) Consider whether the Beijing VIS centre</p>	<p>HKTB agrees with audit recommendations. The size of the Beijing VIS centre has been reduced from 21 square metres to 9 square metres following its relocation in June 2007. It is of strategic importance and HKTB will continue to take measures to improve its utilisation.</p>	<p>(a) to (c) Completed.</p>

	DoA's Recommendations	HKTB's Response in October 2007	Progress to Date
	<p>could be scaled down in view of the low utilisation.</p> <p>(c) Review the need for setting up the VIS centre in Shanghai, taking into account the low utilisation of the Beijing VIS centre.</p>	<p>In early 2006, HKTB has already shelved the idea of establishing a VIS centre in Shanghai. The HKTB will continue to monitor the market development and revisit such need as and when appropriate.</p>	
Execution And Evaluation Of Mega Events			
<p>6.</p>	<p>(a) Finalise the review on the mega events as soon as possible.</p> <p>(b) Take into account the review results in enhancing its strategy for organising future mega events.</p> <p>(c) Ascertain the reasons for not meeting the targets for a mega event and take measures to improve similar mega events in future.</p>	<p>For (a) to (c). HKTB maintains a strategy for mega events, which forms an integral part of its annual Business Plan and Budget as well as long term Corporate Plan. The strategy is regularly reviewed and enhanced taking into account findings from its mega event tracking surveys. The HKTB targets to complete the review by the end of 2007. HKTB will continue to closely monitor the performance of the mega events and solicit feedback from key stakeholders and trade partners, such as whether the events offer an effective business platform.</p>	<p>(a) and (b) Completed.</p> <p>The review was done and it was concluded that mega events are crucial to city branding and should be continued. The results were endorsed by the relevant committees and the Board in May 2008. Feedback from key stakeholders was also sought on the proposed direction and format for mega events in June 2008.</p> <p>(c) Completed. A new measurement framework was proposed under the 'Review on Mega Events Strategy' to better assess performance and evaluate results. This new framework was also endorsed by the Product and Event Committee in March 2008, and subsequently endorsed by the Board in May 2008.</p>

	DoA's Recommendations	HKTB's Response in October 2007	Progress to Date
	<p>(d) Ensure that:</p> <p>(i) charges for work items to be performed are clearly laid down in future agreements with contractors.</p> <p>(ii) where payments are made outside the contract requirement, prior approval from the appropriate authority is obtained.</p> <p>(e) Take action to maximise the title sponsorship income and solicit more sponsorship for the Parade.</p> <p>(f) Put in place a mechanism to review the cost-effectiveness of performing groups in the Parade in attracting visitors.</p>	<p>(d) HKTB will ensure that all charges for work items to be performed by the contractors will be clearly laid down in the agreement with the contractor concerned, and that prior approval from the appropriate authority will be sought on any change to the scope of a contract.</p> <p>(e) A right of first refusal for the continuation of sponsorship will be built into the agreement with the title sponsor(s) in future. The HKTB will try to maximise the title sponsorship and solicit more sponsorship for the Parade.</p> <p>(f) HKTB tries its best to strike a balance between the cost-effectiveness of the respective Parade elements and the overall attractiveness of the event, as delivered by the best possible combination of local and international performing groups and line-up.</p>	<p>(d) Completed.</p> <p>(e) Completed. New sponsorships were solicited for the 2008 International Chinese New Year Night Parade, including sponsors for pre-event performance, parade route, international performing groups and welcome luncheon for the international groups.</p> <p>Currently, HKTB management has been following the approval limit under the existing Procurement Guidelines for signing sponsorship agreements. HKTB will develop a set of guidelines on the signing of sponsorship agreements, and submit these to the Board/Committee for approval. Target completion by Q3/2008.</p> <p>(f) Completed. HKTB has included a question in its survey to check satisfaction of visitors and locals on the variety of performing groups. In order to increase cost effectiveness of international performing groups, HKTB has sought sponsorships for additional performances in shopping malls and at the Hong Kong Jockey</p>

	DoA's Recommendations	HKTB's Response in October 2007	Progress to Date
			Club.
Execution And Evaluation of Other Marketing Activities			
7.	<p>(a) Set performance targets for its advertising and promotion campaigns to evaluate the effectiveness of the campaigns in achieving their intended objectives.</p> <p>(b) Having regard to the results of its tracking study, take measures to improve its advertising and promotion campaigns in future.</p> <p>(c) Cover all the key markets in its tracking study on worldwide promotion activities as far as possible.</p>	<p>HKTB has considered audit recommendations and responded that –</p> <p>(a) HKTB had conducted pre-campaign and post-campaign tracking studies to assess the changes before and after the launch of the worldwide promotion campaign for 2005-06 to 2006-07. These tracking studies directly measured the effectiveness of the marketing initiatives under the campaign, whereas the overall results of the campaign were measured by the defined KPIs set for the campaign period, such as visitor arrivals, spending, satisfaction and revisit intention.</p> <p>(b) Throughout the campaign period, the HKTB conducted two phases of tracking study to assess the change in consumers' perception of Hong Kong. The results will serve as the benchmark for setting performance targets in this aspect for future advertising and promotion campaigns.</p> <p>(c) HKTB considers that the coverage of the tracking study (i.e. 14 out of 16 key markets) is sufficient. While it would be ideal to cover all key markets, consideration needs to be given to the availability of resources and specific market conditions, which might affect the reliability of findings. The HKTB therefore believes that a flexible approach should be adopted in determining the scope of the tracking study.</p>	<p>(a) In progress. HKTB will conduct a review of the performance measurement system in order to more accurately measure its campaigns' performance. Target completion by Q3/2008.</p> <p>(b) Completed.</p> <p>(c) Completed.</p>

	DoA's Recommendations	HKTB's Response in October 2007	Progress to Date
8.	Review the feasibility of using other contract arrangements (e.g. a term contract) for staging pyrotechnic displays more cost-effectively.	HKTB agrees with audit recommendations and will explore the possibility of arranging a term contract for staging pyrotechnic displays during A Symphony of Lights.	Completed. HKTB has completed the review on the feasibility of using other contract arrangements for staging pyrotechnic displays more cost effectively. In the foreseeable future, the HKTB will not stage any pyrotechnic displays for A Symphony of Lights and therefore a term contract arrangement is not practicable. HKTB has kept a list of qualified suppliers in case ad hoc pyrotechnic display is required to be staged and will take full account of the cost effectiveness in selecting suppliers.
9.	Consider taking measures to recover the direct expenses incurred in arranging travel trade operators to participate in trade shows.	HKTB noted audit recommendations and had made continuous improvement in recovering the direct expenses incurred in arranging travel trade operators to participate in trade shows in the past few years. The percentage of cost recovered increased from 50% in 2004 to 57% in 2005 and 60% in 2006; HKTB will continue to enhance the level of cost recovery.	Completed.
10.	<p>(a) Take measures to evaluate the effectiveness of trade familiarisation visits.</p> <p>(b) Conduct regular reviews of the feedback (e.g. satisfaction level) of overseas travel trade operators on their familiarisation visits to Hong Kong and complete the reviews in a timely manner.</p>	HKTB generally agrees with audit recommendations. The survey results for familiarisation visits during the Discover Hong Kong Year (DHKY) campaign period from May 2005 to March 2007 will be completed by October 2007 and presented to the Board thereafter. Starting 2007-08, HKTB will formalise the tracking system for the number of tour products developed as a result of the familiarisation visits. The results will be presented to the Board on a yearly basis.	(a) and (b) Completed. A new tracking system for the number of tour products developed as a result of the familiarisation visits was implemented in the first quarter of 2008.

	DoA's Recommendations	HKTB's Response in October 2007	Progress to Date
11.	<p>(a) If there are changes in the work required during the tender selection process (e.g. a reduction of work), ensure that the agreement with the tenderer is obtained and documented.</p> <p>(b) Require its contractors to provide proper receipts to substantiate the claims for payment and state clearly the nature of the expenditure in the receipts.</p> <p>(c) Ensure that payment is made to a contractor after the signing of a contract.</p>	<p>HKTB has considered audit recommendations and responded that -</p> <p>(a) It will further tighten the procurement policies and procedures for the WWOs, and regularly remind staff to strictly follow the policies and procedures through various communication channels, such as staff briefings.</p> <p>(b) Requiring contractors to provide proper receipts to substantiate the claims made by sub-contractors is not in line with the prevailing market practice. Nevertheless, the HKTB ensured that the defined deliverables in the contract of the project had already been delivered by the contractor before making the payment.</p> <p>(c) All staff have been reminded that payment should be made to a contractor only after the signing of a contract.</p>	(a) to (c) Completed.
12.	Should consider collecting information about customers' travel behaviour and personal profiles through the DiscoverHK website for targeted marketing purposes.	HKTB agrees with audit recommendation and has already enhanced the E-zine subscription form on the DiscoverHK website and the recently launched 2008 Olympic Equestrian Events micro-site to collect more customer information, including travel behaviour and personal profiles.	Completed.
13.	Should consider exploring whether there are other cost-effective methods (e.g. conversion studies) that should be undertaken for evaluating the effectiveness of selected marketing activities.	HKTB has noted audit recommendations and responded that the HKTB will consider enhancing the current methodologies or introducing new ones, whichever are the most effective, for evaluating the effectiveness of its marketing activities.	Completed. HKTB will deploy cost effective methodology to evaluate its marketing activities subject to the nature and purpose of the activities.

	DoA's Recommendations	HKTB's Response in October 2007	Progress to Date
Quality Tourism Services Scheme (QTS)			
14.	<p>(a) Investigate the reasons for the increase in the number of complaints received against QTS merchants and take action to improve the QTS Scheme.</p> <p>(b) Explore ways to enable the QTS Scheme to achieve self-financing.</p> <p>(c) Take measures to encourage more visitor accommodation operators to apply for QTS certification.</p>	<p>HKTB generally agrees with audit recommendations and responded that -</p> <p>(a) HKTB has been taking active steps to identify the reasons for the increase in complaints.</p> <p>(b) In the long run, HKTB aims to recover the operating expenditure directly related to merchant accreditation. The expenses on the promotion of the QTS Scheme will continue to be funded by the HKTB as part of its effort to promote Hong Kong's destination image in quality service.</p> <p>(c) HKTB will continue to maintain the stringent criteria to uphold the quality assurance of the programme, and will not lower the criteria for the sake of acquiring more establishments.</p>	<p>(a) Completed. The analysis was completed and presented to the QTS Committee in June 2008.</p> <p>(b) In progress. Target to complete by Q3 2008</p> <p>(c) Completed. HKTB will continue to recruit more quality visitor accommodation establishments. As of 30 April 2008, nine establishments representing 422 rooms have already received accreditation.</p>

Follow up Actions on Report No. 49 of the Director of Audit (DoA) – Chapter 5

	DoA's Recommendations	Administration's Response in October 2007	Progress to Date
1.	<p>(a) Appoint a date for the HKTB to forward the Business Plan and Budget to the Secretary for Commerce and Economic Development for approval in accordance with section 17B(1) of the HKTB Ordinance.</p> <p>(b) Lay down arrangements for the approval of the HKTB's Business Plan and Budget before the commencement date of the relevant financial year.</p> <p>(c) Ensure that the arrangements are complied with in future.</p>	<p>The Secretary for Commerce and Economic Development (SCED) has said that:</p> <p>(a) the Tourism Commission (TC) has conveyed to the HKTB the Administration's views on the HKTB's strategic directions, work priorities and key expenditure items when the HKTB engages the TC in formulating its Business Plan and Budget. The HKTB has also confirmed that it takes these views into account in finalising its Business Plan and Budget;</p> <p>(b) to formalise the submission and approval process as required by section 17B(1) of the HKTB Ordinance, he has already appointed a date as the deadline for the HKTB to forward its Business Plan and Budget for his approval; and</p> <p>(c) the Administration has also worked out with the HKTB the practical arrangements to ensure that the Business Plan and Budget can be endorsed by its Board and approved by him on a timely basis.</p>	<p>(a) to (c) Completed.</p> <p>The SCED has appointed 28 February as the date before which HKTB has to forward for his approval its annual Business Plan and Budget.</p> <p>We have formulated systematic arrangements with the HKTB to improve its business planning and budget approval process.</p>

	DoA's Recommendations	Administration's Response in October 2007	Progress to Date
2.	<p>(a) Review the composition of the Board in the light of the Board's actual operational needs.</p> <p>(b) Ascertain whether there is still a need for appointing members of the Board from the Consumer Council and from the front-line workers of the travel and tourism industry</p>	<p>The SCED has said that:</p> <p>(a) in considering appointments to the HKTB Board, the Administration takes into account the Board's strategies and work, and the range of talents needed to ensure its effectiveness. Due to the different cycles of appointments to the Board and the Consumer Council, it may not be possible to maintain cross-membership with the Consumer Council at all times. In fact, he has attempted to ensure that the consumer protection angle is taken care of in the Board membership; and</p> <p>(b) as for front-line workers of the tourism trade, he has invited the HKTB to engage the tourism industry at different levels. In addition to the existing practice of conducting prior consultation with travel trade stakeholders, the HKTB has planned to extend the consultation on the HKTB's plans and strategies to non-travel trade stakeholders, such as retail and catering industries, as well as academics, starting from 2007-08. A structured format will be adopted for the consultation and engagement process, with summary of feedbacks gathered being submitted to the respective Committees of the Board.</p>	<p>(a) and (b) Completed.</p> <p>An information paper on the arrangement regarding the appointment of representative of the Consumer Council and frontline worker of the tourism industry to the HKTB has been issued to Legislative Council Panel on Economic Development in January 2008.</p>

	DoA's Recommendations	Administration's Response in October 2007	Progress to Date
3.	Take into account the attendance of members at Board/Committee meetings in considering their reappointment.	The SCED has said that: (a) the Government takes into account the attendance rate of members when considering their reappointment. He also noted that some members' attendance rates were low. He has invited the HKTB Secretariat to inform individual members of their attendance as a reminder of the importance of their attendance. The Secretariat has introduced this practice and issued the first round of reminders since August 2007; and (b) he notes that some members, though unable to attend all meetings due to busy travelling schedules, also contribute to the Board's work in different ways, e.g. giving written advice, attending events organised by the HKTB, liaison with relevant trade, etc.	(a) & (b) Completed.
4.	Consider improving the reporting of the performance measures in the Controlling Officer's Report (COR) to better reflect the performance of the HKTB.	The SCED has said that he will, in consultation with the HKTB, consider including in the next COR additional performance indicators, including length of stay and visitor satisfaction, to better reflect the performance of the HKTB.	Completed. Additional performance indicators, including length of stay and visitor satisfaction, have been included in the 2008-09 COR.
