

# **HOTEL ACCOMMODATION ARRANGEMENTS FOR THE CHIEF EXECUTIVE'S DUTY VISITS OUTSIDE HONG KONG**

## **Summary**

1. On 25 April 2012, the Chief Executive (CE) invited the Audit Commission to review the current mechanism adopted by the CE's Office (CEO) in making arrangements for hotel accommodation during CE's duty visits outside Hong Kong, and to identify whether, and if yes how, the current mechanism should be improved, to ensure that appropriate arrangements would be made to meet the objectives and operational needs of the visits.

2. We started this audit in late April 2012 with field work completed in mid-May 2012. We have examined the CEO's mechanism and have selected five CE's duty visits to illustrate how the arrangements were made, with two of them examined in more details. Because the Hong Kong Economic and Trade Offices (ETOs) also play a key role in coordinating CE's duty visits outside Hong Kong, we have examined relevant records of the CEO as well as those of the ETOs.

### **CE's allowance entitlement to cover hotel accommodation**

3. According to his terms and conditions of appointment, CE is entitled to a subsistence allowance payable at the same rate and manner, and subject to the same rules and regulations, as applicable to the highest-ranking civil servants. In this connection, we note that under the Government's Civil Service Regulations, the standard or enhanced rate of subsistence allowance applies to civil servants of all ranks, including the highest-ranking civil servants, and the enhanced rate (actual cost of hotel accommodation plus 40% of the standard subsistence allowance) applies, with the approval of the Head of Department, when it is necessary to stay in a particular hotel for operational reasons, or cheaper hotel accommodation is not available.

### **Our expectations**

4. When government funds are involved, we expect CE, as the head of the Hong Kong Special Administrative Region (HKSAR) Government with authority and influence, to set a good example and take appropriate steps to ensure that expenditure decisions made are moderate and conservative. On the other hand, it is necessary to bear in mind that the arrangements for CE's duty visits, including the class of accommodation, should reflect credibly the status of CE as head of the HKSAR as well as the status of Hong Kong in the international arena. All in all, we expect the CEO to take steps to ensure that all hotel accommodation expenditure incurred is appropriate, reasonable, relevant to the circumstances, and in accordance with the Government's policies and procedures.

## Areas for improvement

5. We have identified the following areas that required improvement:

### *CEO's mechanism for arranging hotel accommodation for CE's duty visits*

- (a) ***Need to take into consideration the moderate and conservative principle in making hotel accommodation decisions having regard to circumstances relevant to CE's duty visits.*** Since his appointment for the current term in July 2007, up to April 2012, CE had made a total of 55 duty visits, during which the CEO had arranged hotel accommodation for CE for 142 nights. Apart from 93 nights sponsored by the hosts, 49 nights were paid by the HKSAR Government and, of these 49 nights, CE was accommodated in superior suites (suites of the top tiers — Note) for 41 nights. Whilst we noted that CE was on most occasions accommodated in superior suites during sponsored visits, and many foreign dignitaries visiting Hong Kong had also been accommodated in superior suites, we consider that the CEO should always be more cost conscious in its expenditure decisions given that government funds are involved;
- (b) ***Need to explore the feasibility of developing internal rules and principles to govern the choice of accommodation.*** We noted that for all CE's duty visits (excluding sponsored visits), CE's daily hotel room rate always exceeded 60% of the standard subsistence allowance rate and the enhanced allowance rate applied. However, the standard subsistence allowance rate applicable to civil servants does not differentiate between ranks (see para. 3 above). It is of audit concern as to what extent the standard rate can reasonably be exceeded, having regard to the moderate and conservative principle on the use of government funds on one hand and the need to reflect credibly the status of CE as head of the HKSAR as well as the status of Hong Kong in the international arena on the other (see para. 4 above). In this regard, we note that the CEO has not promulgated any internal rules and principles to govern the choice of accommodation;
- (c) ***Need to seek approval from the Permanent Secretary of CEO and to consult CE.*** The current arrangement is that the Private Secretary to CE decides the hotel and class of accommodation, and arranges the enhanced allowance payments to CE without approval given by the Permanent Secretary who is the Controlling Officer of the CEO. Based on CEO records, CE was not involved in any of the decision-making or procedures;
- (d) ***Need to monitor the increasing trend of CEO expenditure on CE's duty visits.*** Since 2009-10, the CEO expenditure on CE's duty visits outside Hong Kong has been increasing. The CEO expenditure incurred in 2011-12 was more than double of that in 2010-11. An analysis indicates that duty visits outside Hong Kong in 2011-12 had involved more long-haul travels and longer duration of stay;

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**Note:** "Superior suites" are the most or the second most expensive type of accommodation offered by hotels. Depending on the terminology used by different hotels, they are sometimes called Presidential Suites, Executive Suites, Royal Suites or Imperial Suites.

- (e) ***Need to justify CE's accommodation and to consider the use of hotel meeting/function rooms for holding meetings.*** Based on CEO records, we noted that on a few occasions, there were documented justifications to support the choice of superior suites. Nonetheless, on many occasions, adequate documented justification for CE's accommodation in superior suites was not available. When determining the type of accommodation for CE's duty visits, the CEO should also take into account meeting/function rooms for hire or use by hotel guests;
- (f) ***Need to prepare cost budgets for CE's duty visits.*** It is a good corporate governance practice to prepare cost budgets, with proper procedures for approving post-budget revisions. Such cost budgets should include estimated expenditure to be incurred by the CEO as well as the ETOs/departments in relation to CE's duty visits;
- (g) ***Need to improve the scope of post-visit review.*** After each duty visit, the CEO and relevant ETOs would conduct a comprehensive post-visit review. However, we noted that the post-visit review reports were mainly compiled by the ETOs. It would appear that the CEO should also evaluate, as part of the post-visit review, whether the visits have achieved their intended objectives, ascertain the actual costs incurred and explore any areas for improvement in future visits. In particular, the CEO should ascertain from the responsible ETOs/departments their actual expenditure incurred. We have found that expenditure spent by parties other than the CEO relating to CE's duty visits could be quite significant. For example, apart from HK\$1.1 million spent by the CEO for CE's duty visit to Chile, Brazil and New Zealand in April 2012, the Washington ETO had spent HK\$0.87 million in making preparatory visits;

#### ***Role of ETOs***

- (h) ***Need to comply with the moderate and conservative principle in expenditure decisions.*** We have found that, to prepare for CE's duty visit to USA in November 2011, the San Francisco ETO and the Trade and Industry Department had incurred a total cost of HK\$36,700 for hiring a chauffeur-driven car for hotel visits over five days during their first and second preparatory visits in Honolulu; and
- (i) ***Need to optimise the number of officers deployed for preparatory visits.*** To prepare for CE's duty visit to Chile and Brazil in April 2012, we noted that teams of three to five officers, including the Commissioner for Economic and Trade Affairs, USA and one directorate officer in each team, were involved in the two preparatory visits, one in December 2011 and another in March 2012. Given that the Washington ETO had only three directorate officers, including the Commissioner, we are concerned that at one time, two of them were actively involved in the preparatory visits.

## Way forward

6. We have conducted research and identified some good practices that are adopted in other countries/states. These include the following:

- (a) in UK and the New South Wales Government of Australia, some economy rules and principles are laid down to govern duty visits by Ministers;
- (b) some countries/states such as UK, Canada and New South Wales of Australia publicise at periodic intervals details of major overseas visits undertaken by their top leaders, such as the Ministers; and
- (c) some countries/states such as Canada, New York State of USA, New South Wales of Australia and New Zealand provide corporate credit cards or departmental travel expense cards to Ministers or government officials for official overseas travel.

7. *In respect of CE's duty visits outside Hong Kong, we have recommended that the CEO should:*

- (a) *develop appropriate rules and principles to facilitate its staff to make appropriate and reasonable expenditure decisions on hotel accommodation;*
- (b) *where exceptions have to be made to the internal rules and principles drawn up, consult CE on the hotel accommodation decisions;*
- (c) *seek approval from the Permanent Secretary of the CEO for paying an enhanced subsistence allowance to CE, to provide an effective check and balance;*
- (d) *consider proactive disclosure of CE's duty visit expenditure; and*
- (e) *remind ETOs/departments to bear in mind, when making accommodation arrangements, the moderate and conservative principle and the audit recommendations set out in the Report, and optimise the number of officers to be involved in preparatory visits.*

## Response from the Administration

8. The CEO shares our expectations and, with these expectations in mind, agrees generally with the audit recommendations.

May 2012