

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

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The Audit Commission ("Audit") conducted a review on the corporate governance and administrative issues of the Hong Kong Tourism Board ("HKTB"). A related review was conducted in October 2007.<sup>1</sup>

2. Hon Paul TSE declared that he was a member of the Quality Tourism Services Committee and the Quality Tourism Services Sub-Committee under HKTB. Hon SHIU Ka-fai declared that he was an adviser to the Governing Council of the Quality Tourism Services Association.

3. HKTB is a government-subsidized body established in April 2001 under the Hong Kong Tourism Board Ordinance (Cap. 302).<sup>2</sup> 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 of HKTB has appointed five Committees<sup>3</sup> to oversee various aspects of HKTB's operations. As at 31 March 2020, HKTB had an establishment of 379 staff members. The Commerce and Economic Development Bureau is responsible for overseeing HKTB's operation, and Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) is the Controlling Officer of the subvention granted to HKTB. In 2019-2020, HKTB had a total income of \$869.3 million (including government subvention of \$834.6 million) and a total expenditure of \$865.2 million.

4. The Committee noted the following findings from the Director of Audit's Report:

Corporate governance

- from 2015-2016 to 2019-2020, there were delays in the appointment of six Industry members and the re-appointment of three Industry

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<sup>1</sup> Chapter 5 of the Director of Audit's Report No. 49 – "Hong Kong Tourism Board: Corporate governance and administrative issues".

<sup>2</sup> The Hong Kong Tourist Association was set up as a membership organization in 1957. Subsequent to the completion of the Strategic Organisation Review in 1999, the Board of Management of the Hong Kong Tourist Association decided to abolish the membership system of the Hong Kong Tourist Association and reconstitute it into HKTB. The Hong Kong Tourism Board Ordinance was enacted in March 2001 to effect these changes.

<sup>3</sup> These Committees are the Audit Committee, Marketing and Business Development Committee, Product and Event Committee, Staff and Finance Committee and Quality Tourism Services Committee.

members of the Quality Tourism Services Committee. The average period of vacancy of membership was four months, ranging from two to eight months. In addition, upon the retirement of the Chairman of the Audit Committee on 31 March 2019, the proposed appointment of the new Chairman was not circulated to Board members for approval until 2 July 2019 and the new Chairman was appointed with effect from 9 July 2019;

- the Chief Executive announced in her 2017 Policy Address that the Government aimed to increase the overall ratio of youth members (i.e. persons aged between 18 and 35) in government boards and committees to 15% within the current-term Government. However, as at August 2020, none of the 19 non-official HKTB Board members were aged between 18 and 35, and only 1 (8%) of the 12 new Board members appointed between October 2017 and August 2020 was aged between 18 and 35 at the time of appointment;
- HKTB's Code of Conduct for Board Members did not provide guidelines on the circumstances where the member who had declarable interest in the matter under consideration might speak or vote on the matter, might remain in the meeting as an observer, or should withdraw from the meeting;
- Audit examined the minutes of the 126 Board/Committee meetings held in the period from 2015-2016 to 2019-2020 and noted that declarations of interest were made by the Chairmen and some members in 17 meetings. Out of these 17 meetings, Audit found that:
  - (a) in two (12%) meetings, the decisions on handling conflict of interest were documented in the minutes, but the rationales behind the decisions were not documented;
  - (b) in five (29%) meetings, the decisions on handling conflict of interest and the rationales behind the decisions were not documented in the minutes; 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;

- since the establishment of HKTB in April 2001, the Government and HKTB had not entered into a Memorandum of Administrative Arrangements as proposed in Financial Circular No. 9/2004;<sup>4</sup>
- from 2016-2017 to 2019-2020, HKTB had unspent additional funding ranging from \$13.8 million to \$270.2 million, but no mechanism had been set up to handle such unspent additional funding;

#### Human resource management and other administrative issues

- in the past 20 years, HKTB had only conducted four pay structure reviews for Head Office staff and two pay structure reviews for Worldwide Office ("WWO") staff. According to the results of the pay structure reviews conducted in 2017 (for Head Office staff) and 2018 (for WWO staff), the mid-points of 5 of the 18 job levels' salary ranges of Head Office 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. Out of the 84 job levels of the eight WWOs, 33 (39%) were outside the acceptable deviance range;
- HKTB had not conducted any remuneration reviews for its staff since its establishment in 2001;
- HKTB conducted six recruitment exercises for General Manager/Regional Director positions from 2013-2014 to 2019-2020. Audit noted that in one (17%) recruitment exercise, two of the five interviewers only signed blank Declaration of Conflict of Interest Forms without indicating whether they had relationship with the candidate, and in four (67%) recruitment exercises, some interviewers had left blank the assessments on all the five aspects<sup>5</sup> of the candidates on the Interview Assessment Forms;

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<sup>4</sup> According to Financial Circular No. 9/2004 "Guidelines on the Management and Control of Government Funding for Subvented Organisations" issued by Secretary for Financial Services and the Treasury, Directors of Bureaux or the Controlling Officers should preferably enter into a Memorandum of Administrative Arrangements or a similar instrument with each organization receiving recurrent funding from the Government under their purview.

<sup>5</sup> These 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.

- from April 2019 to June 2020, 88 staff members ceased to be employed by HKTB, but HKTB had failed to submit notifications to the Inland Revenue Department one month before the date of cessation of their employment as required by the Inland Revenue Ordinance (Cap. 112);
- Audit reviewed the fixed asset management of HKTB and found that 30 items of portable electronic equipment of two user departments could not be located and were written off eventually. The total purchase cost and the net book value of the items were \$129,213 and \$9,235 respectively;

#### WWOs and Representative Offices

- despite the changes in the market conditions, the number and geographical coverage of WWOs remained generally unchanged from 2009 to 2018. HKTB had not reviewed the establishment of WWOs/Representative Offices every two years according to the guidelines approved by the Board in 2009;
- some quotations for lease renewal of WWOs submitted to the Staff and Finance Committee 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 was for a premises with an area and rent of about six times and ten times respectively of the existing office;
- the committed lease period for the WWOs in Los Angeles and New York was long. The break clause of the lease of the Los Angeles WWO only allowed HKTB to terminate the lease after leasing for seven years. In the 10-year lease of the New York WWO, the break clause would only be exercisable if HKTB closed the WWO; and
- 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 among WWOs, ranging from 15.67 square metres per staff member in Guangzhou to 65.31 square metres per staff member in New York.

5. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding measures to improve HKTB's corporate governance and human resource management as well as WWOs' financial control.

The replies from **Secretary for Commerce and Economic Development** and **Executive Director of the Hong Kong Tourism Board** are in *Appendices 10* and *11* respectively.

6. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.