



審計署署長
香港灣仔
告士打道七號
入境事務大樓
二十六樓

Director of Audit
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

圖文傳真 Facsimile : 2583 9063

電話 Telephone : 2829 4200

本署檔號 Our Ref. : CI/CEO/RVW/0

來函檔號 Your Ref. :

31 May 2012

The Honourable Donald TSANG, GBM
The Chief Executive
Hong Kong Special Administrative Region
People's Republic of China
Chief Executive's Office
Hong Kong

Dear Mr Tsang,

On 25 April 2012, you invited the Audit Commission to review the current mechanism adopted by the Chief Executive's Office in making arrangements for hotel accommodation during the Chief Executive's duty visits outside Hong Kong.

I have completed the review and have pleasure to submit my report.

I would like to take this opportunity to thank the colleagues in your office for the cooperation and assistance rendered during the course of the review. I also wish to place on record my appreciation to my audit team for completing the report professionally within an exceptionally tight schedule.

Yours sincerely,

(Benjamin Tang)

Chief Executive's Office

**Hotel accommodation arrangements for
the Chief Executive's duty visits outside Hong Kong**

**Audit Commission
Hong Kong
29 May 2012**

This report is available on our website
(<http://www.aud.gov.hk>).

Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

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

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PART 1: WHY WE CONDUCTED THIS AUDIT

1.1 This PART describes the background leading to this audit.

Hotel accommodation expenditure

1.2 Hotel accommodation expenditure incurred during duty visits is one type of sensitive expenditure (Note 1) which very often draws public attention. Although the amount of money spent may not be large in the context of the Government's total expenditure, each decision on such expenditure is important and must be able to withstand public scrutiny. Improper expenditure could harm the reputation of, and trust in, the Government. Therefore, careful consideration is always needed to ensure that the hotel accommodation expenditure is appropriate.

Past audit on hotel accommodation expenditure

1.3 In March 2009, the Audit Commission (Audit) pointed out in Chapter 3 of the Director of Audit's Report No. 52 that a public entity should observe the following principles in making sensitive expenditure decisions:

- (a) there should be a justified business purpose for the expenditure; and
- (b) the expenditure decisions should be moderate and conservative, having regard to the circumstances. In other words, the expenditure should not be perceived as extravagant and inappropriate.

In the audit which covered duty visits outside Hong Kong for the Chairperson and Board Members of the Equal Opportunities Commission, Audit had recommended the Commission **to strictly apply the "moderate and conservative" principle in making expenditure decisions on duty visits in future**, and to set appropriate guidelines on hotel accommodation and hospitality expenses to facilitate the application of the "moderate and conservative" principle for such expenses.

Note 1: *Sensitive expenditure, apart from bringing business benefit to the organisation, could also be seen as giving some private benefit to individual staff members, e.g. official entertainment and overseas duty visits.*

1.4 In its Report No. 52 of July 2009, the Public Accounts Committee of the Legislative Council strongly urged the Equal Opportunities Commission to adhere to the “moderate and conservative” principle in making expenditure decisions, and to promote a corporate culture that emphasises prudence and economy in the use of public funds.

What triggered this audit

1.5 In April 2012, the accommodation of the **Chief Executive (CE)** of the Hong Kong Special Administrative Region (HKSAR) Government in a presidential suite in a hotel at US\$6,900 per night during his duty visit to Brazil earlier that month attracted wide media coverage and public attention.

1.6 On 25 April 2012, CE invited Audit 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 (see CE’s letter at Appendix A).

1.7 We started this audit in late April 2012 with field work completed in mid-May 2012. This Audit Report contains the following PARTs:

- (a) mechanism for arranging hotel accommodation (PART 2);
- (b) role of Hong Kong Economic and Trade Offices (ETOs — Note 2) (PART 3);
and
- (c) way forward (PART 4).

Audit work done

1.8 In this audit, we have examined the mechanism adopted for arranging hotel accommodation for CE’s duty visits during his current term of appointment. To support the audit, we have also examined relevant records at the CEO and ETOs, and conducted interviews or communicated by e-mails with a few key officers of these offices to better understand how they arranged hotel accommodation for CE and his accompanying staff.

Note 2: *Several overseas ETOs had been contacted in this audit, including the ones in London, New York, San Francisco, Sydney and Washington DC.*

We have selected five duty visits to illustrate how these arrangements were made and examined two of them in more details, namely:

- (a) CE's duty visit to USA in November 2011 (see item (50) at Appendix B); and
- (b) CE's duty visit to Chile, Brazil and New Zealand in April 2012 (see item (55) at Appendix B).

These two duty visits were selected for detailed examination because they were the most recent ones which had incurred expenditure of over HK\$1 million (with the one in (b) above drawing much public attention — see para. 1.5).

Our expectations

1.9 When government funds are involved, we expect CE, as the head of the 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.

Acknowledgement

1.10 We would like to acknowledge with gratitude the full cooperation of the staff of the CEO, ETOs and the Commerce and Economic Development Bureau (CEDB — which oversees the operation of the ETOs) during the course of the audit review.

PART 2: MECHANISM FOR ARRANGING HOTEL ACCOMMODATION

2.1 This PART examines the mechanism adopted by the CEO in arranging hotel accommodation for CE's duty visits outside Hong Kong.

Purpose of Chief Executive's duty visits

2.2 From time to time, CE may make duty visits to promote a positive image of Hong Kong, to update government contacts and business communities on developments in Hong Kong, to foster bilateral relations and to enhance Hong Kong's relations with its overseas trading partners. The CEO, headed by the Director/CEO, is responsible for planning and making arrangements to support such duty visits. In the CEO, there are also the Permanent Secretary, CEO (PermSecy/CEO), who is the Controlling Officer of the CEO, and the Private Secretary to CE (PS/CE), who assists CE in matters relating to his official duties. An organisation chart of the CEO as at April 2012 is at Appendix C.

2.3 Since his appointment for the current term in July 2007, up to April 2012, CE had made a total of 55 duty visits. The CEO had incurred some HK\$12 million on these duty visits. Details of the 55 duty visits are shown at Appendix B. The expenditure reported for these 55 duty visits had not taken into account other expenditure incurred by ETOs/departments concerned in coordinating the visits and planning the logistical arrangement, because such data was not available at the CEO.

Mechanism for arranging hotel accommodation for Chief Executive's duty visits

2.4 Each year, the Information Services Department (ISD) collates the annual "Leadership Travel Plan" in consultation with the ETOs and Principal Officials' Private Offices. The Plan embraces the duty visit plans for CE and all Principal Officials of the Government.

2.5 ETOs generally play a key role in coordinating CE's duty visits outside Hong Kong. They propose detailed visit programmes for consideration by the CEO. This may involve paying advance visits to the places to be visited and planning the logistical arrangements, including identifying suitable hotel accommodation. If expenditure for hotel accommodation is to be borne by the CEO, the relevant ETO will submit proposals with quotations to the CEO for consideration.

2.6 If CE's hotel accommodation is sponsored by a host country or organisation, the CEO will normally follow the advice of the sponsor.

2.7 The CEO, in consultation with the responsible ETOs/departments, will decide on the hotel, class of accommodation, duration of stay and mode of in-town transportation for CE and his accompanying staff. PS/CE will normally consider the following factors in making decisions on hotel accommodation:

- (a) quotations obtained by the responsible ETOs/departments;
- (b) services and facilities provided by hotels;
- (c) operational needs, including the visit programme, security, transportation and contingency requirements;
- (d) whether the hotel chosen is commensurate with the purpose of the visit; and
- (e) whether CE will reside in a manner that reflects credibly his status as head of the HKSAR as well as the status of Hong Kong in the international arena, taking into account the class of accommodation sponsored by overseas governments, accommodation chosen by other government heads visiting the place, the reputation of the hotel and the accommodation taken up by CEs of the previous and current terms.

According to PS/CE, she is **not** required to consult CE on the hotel and room type to be chosen, nor is it a practice of the incumbent CE to give instruction on his preference for hotel and class of accommodation. A flowchart on the mechanism for arranging hotel accommodation is shown at Appendix D.

Allowance entitlement to cover hotel accommodation

2.8 Whenever a civil servant is on duty outside Hong Kong, he is entitled under the Government's Civil Service Regulations (CSRs — Note 3) to claim a subsistence allowance at specified rates (**standard rates**) to cover hotel accommodation and other expenditure items such as meals, laundry charges, casual entertainment, gratuities, travelling expenses within towns and all minor incidental out-of-pocket expenses. Such standard rates of

Note 3: *CSRs, as part of government regulations, regulate matters relating to the conduct of government business, the terms of appointment and conditions of service for civil servants.*

subsistence allowance, which are revised from time to time, vary from one country/city to another (Note 4) and are applicable to civil servants of all ranks, including the highest-ranking ones. Examples of the standard rates of subsistence allowance outside Hong Kong are shown at Appendix E.

2.9 According to the CSRs, with the approval of the Head of Department, a civil servant may draw an allowance at an **enhanced rate** which will cover the **actual** cost of hotel accommodation (excluding meals and sundries) plus 40% of the standard subsistence allowance 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.

2.10 For the CEO, the following rules and practices are adopted:

Allowance entitlement

- (a) **For CE.** According to CE's terms and conditions of appointment, for duty visits outside Hong Kong, he 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 (Note 5). CE's spouse is also entitled to a subsistence allowance (40% of the rate payable to CE) if she is travelling for official purpose;
- (b) **For the Director/CEO.** Under the "Code for Officials under the Political Appointment System", the Director/CEO, when on duty outside Hong Kong, is entitled to a subsistence allowance applicable to the highest-ranking civil servants (Note 5) to cover the cost of the appropriate standard of accommodation, meals and other sundry expenses;
- (c) **For other officers in the CEO (including a few officers on special appointment terms).** These officers are entitled to claim the standard or enhanced rates of subsistence allowance in accordance with the CSRs;

Note 4: For example, as at April 2012, the standard rates of subsistence allowance per night for Brasilia (Brazil) and Washington DC (USA) were BRL 557 (about HK\$2,300) and US\$241 (about HK\$1,900) respectively.

Note 5: Under the CSRs, the standard or enhanced rate of subsistence allowance applies to civil servants of all ranks, including the highest-ranking civil servants (see para. 2.8).

Approval of enhanced subsistence allowance

- (d) for all CE's duty visits (excluding sponsored visits), where the daily hotel rates for CE or his accompanying staff have exceeded 60% of the standard subsistence allowance rate (see Appendix E), the enhanced allowance rate applies. Under such circumstances, the CEO would bear the **actual** hotel accommodation expenditure and pay CE and his accompanying staff 40% of the rate of the standard subsistence allowance (see para. 2.9); and
- (e) PS/CE endorses the selection of hotel and class of accommodation for all CE's duty visits outside Hong Kong. Where the selection requires the payment of subsistence allowance at enhanced rates, she also arranges for reimbursement of the hotel accommodation expenses to CE/ETOs and payment of 40% of the standard allowance to CE, without seeking approval from PermSecy/CEO who approves payments of the enhanced allowance to CE's accompanying staff for the visit. According to PS/CE, she did not seek PermSecy/CEO's approval for the allowance payment to CE because the CSRs do not apply to CE, including the specific CSR that refers to approval by the Head of Department (see para. 2.9).

Audit observations and recommendations

2.11 The benefits of CE's duty visits outside Hong Kong were very often stated in terms of positive profiling and influence, relationship building, experience sharing, and securing of cooperation and agreement. Such benefits are intangible and difficult to assess. Therefore, Audit's review did not examine the effectiveness of CE's duty visits in meeting these purposes, but mainly focused on how hotel accommodation, being one of the most costly expenditure items incurred, had been arranged. Audit review of the mechanism for arranging hotel accommodation has identified the following areas for improvement.

Need to seek approval from PermSecy/CEO and to consult CE

2.12 As mentioned in paragraph 2.10(a), 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, the regulations have provided that a civil servant may only draw on an enhanced subsistence allowance with the approval of the Head of Department (see para. 2.9). The current arrangement is that PS/CE decides the hotel and class of accommodation, and arranges the enhanced allowance payments to CE. Based on CEO records, CE was not involved in any of the decision-making or procedures.

2.13 We consider that the above payment arrangement without approval given by PermSecy/CEO, as the Controlling Officer, is not desirable. **Given that CE is already the most senior person in the HKSAR Government, an alternative approval arrangement is required.** In our view, approval from PermSecy/CEO should be sought, in similar manner as payment of enhanced allowance to CE's accompanying staff. This will enhance consistency in the processing of applications within the CEO and provide an effective check and balance.

2.14 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 (see Appendix E) does not differentiate between ranks and circumstances, and that the current policy provides for the application of enhanced allowance rates in specified circumstances. That said, 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. We noted that the extent to which 60% of the standard subsistence allowances had been exceeded did vary. Taking the duty visit to UK in September 2011 (see item (48) at Appendix B) as an example, the hotel rates for CE's superior suites (suites of the top tiers — Note 6) in London and Edinburgh (see Table 1) were 22 times and 5 times respectively above 60% of the standard allowance. In comparison, the hotel rates for CE's accompanying staff in London and Edinburgh were 1.2 times and 0.4 time respectively above 60% of the standard allowance.

Note 6: *For the purpose of this Report, "superior suites" are the most or the second most expensive type of accommodation offered by the hotel in question. Depending on the terminology used by different hotels, they are sometimes called Presidential Suites, Executive Suites, Royal Suites or Imperial Suites.*

Table 1
Hotel accommodation for CE's duty visit to UK
(September 2011)

Place of visit	Hotel	Room type (Note 1)	Number of nights	Hotel charge per night (Note 2)
London	Mandarin Oriental Hyde Park	Presidential Suite (Note 3)	4	GBP 3,720 (HK\$46,826)
		Standard Room	4	GBP 360 (HK\$4,532)
Edinburgh	Caledonian Hilton	King Suite	2	GBP 800 (HK\$10,054)
		Deluxe Room	2	GBP 185 (HK\$2,325)

Source: CEO records

Note 1: CE was accommodated in superior suites (see also Note 3 below) whereas his accompanying staff were accommodated in standard or deluxe rooms.

Note 2: The expenditure in Hong Kong dollars represented the actual amount paid by the HKSAR Government.

Note 3: The presidential suite was classified by the hotel in question as the third top tier of suites it offered (which did not exactly meet our definition in Note 6 to para. 2.14). However, because of the high hotel charge (GBP 3,720 per night), we still regarded it as a superior suite.

2.15 In this regard, we note that the CEO has not promulgated any internal rules and principles to govern the choice of accommodation. **The CEO needs to explore the feasibility of developing such rules and principles.** This will help the CEO staff determine the choice of hotel and class of accommodation for CE and his accompanying staff (e.g. the types of suites and rooms to be selected), and other similar sensitive expenditure items in relation to CE's duty visits outside Hong Kong. Audit research in PART 4 indicates that similar good practices are adopted in other countries/states.

2.16 With the UK duty visit mentioned in paragraph 2.14, we found that PermSecy/CEO had approved payments of enhanced subsistence allowance to CE's accompanying staff. The Director/CEO had also been consulted for his preference for hotel room type. There was however no documentary evidence that CE had similarly been consulted on his preference for hotel and room type.

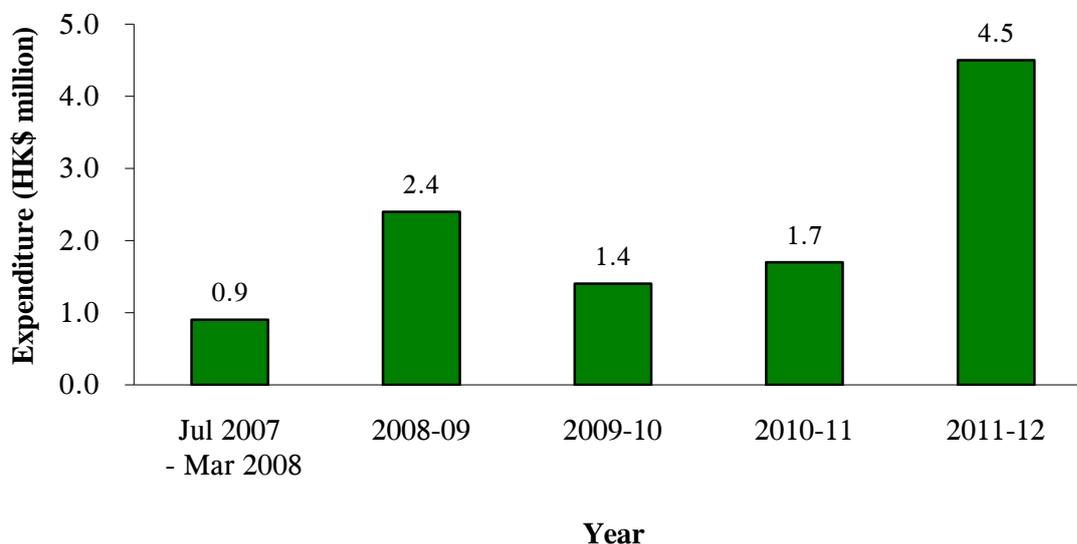
2.17 **We consider that in future, where exceptions have to be made to the internal rules and principles drawn up, CE should be consulted on the relevant accommodation decisions and be given the opportunity to direct the making of alternative arrangements. This will ensure that CE is personally satisfied that the choice of hotel and class of accommodation is commensurate with the purpose of the duty visit and is best value for money.**

Need to monitor the increasing trend of expenditure on CE's duty visits

2.18 Figure 1 shows that since 2009-10, the CEO expenditure on CE's duty visits outside Hong Kong has been increasing.

Figure 1

**CEO expenditure on CE's duty visits outside Hong Kong
(July 2007 to March 2012)**



Source: CEO records

Remarks: (a) In April 2012, the CEO incurred some HK\$1.1 million on CE's duty visits outside Hong Kong.

(b) The CEO expenditure did not include expenses incurred by ETOs/departments in relation to CE's duty visits.

2.19 Figure 1 shows that the CEO expenditure incurred in 2011-12 was more than double of that in 2010-11. An analysis of CE's duty visits indicates that the overseas duty visits in 2011-12 had involved more long-haul travels (e.g. to Australia, UK and USA) and longer duration of stay. According to the CEO, some of these long-haul travels were prompted by the need for CE to show up at events requiring his attendance at regular intervals (e.g. travelling to USA for the Asia-Pacific Economic Co-operation (APEC) meeting; travelling to London to attend the Trade and Development Council's annual dinner, which senior officials of the HKSAR Government took turn to grace). The CEO considered that the duration reflected conscious efforts to make the most effective use of long-haul travels by covering more countries/cities in the region during the same visit.

2.20 According to the CEO, there is also a strategic need for developing relations with emerging markets (e.g. Russia, India and South America) and consolidating/invigorating relations with conventional markets (e.g. UK and USA) at a time when the Hong Kong economy was susceptible to external threats and when the world was looking for opportunities in Asia. In his 2011 Policy Address, CE highlighted the need to strengthen trade and investment cooperation with emerging markets, and expand market and business opportunities for Hong Kong enterprises engaged in the trading of goods and services.

Need to justify CE's accommodation

2.21 We found that CE was frequently accommodated in superior suites during his duty visits outside Hong Kong. Appendix B shows that hotel accommodation had been arranged for CE for 142 nights during his 55 duty visits in his current term of appointment. Apart from 93 nights for which accommodation was sponsored by the hosts (which involved, on most occasions, the offer of superior suites), we found that 49 nights were paid by the HKSAR Government and, of these 49 nights, CE was accommodated in superior suites for 41 nights (Note 7). Some examples of such hotel accommodation provided for CE are shown in Table 2.

Note 7: *For 11 of these 41 nights, CE was accommodated in superior suites in the Mainland. For these 11 nights, because the relevant hotel room type was classified by the hotels as the top or second top tier, we have accordingly regarded the accommodation as superior suite. This is in line with our definition in Note 6 to paragraph 2.14. Nonetheless, we noted that the hotel rates charged for such superior suites (mostly below HK\$6,000 per night) were generally lower than those elsewhere.*

Table 2
Hotel accommodation for some of CE's duty visits

Date of trip (Item no. at Appendix B)	Place of visit	Hotel	Hotel charge per night (Note)	
			Local currency	HK\$
16 – 19 Feb 2009 (20)	Japan	Imperial Hotel	JPY 283,600	22,525
31 Aug – 2 Sept 2010 (35)	Russia	Hotel National	RUB 57,100	14,841
22 & 23 Jun 2011 (46)	Australia	Hyatt Hotel Canberra	AUD 3,045	25,545
8 – 10 Nov 2011 (50)	USA	Mandarin Oriental Washington DC	US\$6,624	52,528
15 & 16 Apr 2012 (55)	Brazil	Royal Tulip Brasilia Alvorada	US\$6,900	52,027

Source: CEO records

Note: The expenditure in Hong Kong dollars represented the actual payment made by the HKSAR Government.

2.22 Based on CEO records, we noted that on a few occasions, there were documented justifications to support the choice of superior suites. For example, for a duty visit to Singapore in November 2009 (see item (27) at Appendix B), CE spent four nights at a superior suite, with three nights sponsored by the host country and one night at the same suite paid by the HKSAR Government (at a charge of HK\$34,577). Another example is with a more recent duty visit to Brazil (see item (55) at Appendix B). In this case, the Washington ETO proposed to the CEO that CE should be accommodated in the renaissance suite of the Renaissance Sao Paulo Hotel at a charge of US\$12,700 per night. In the event, the CEO had selected another superior suite at a lower rate of US\$1,250 per night.

2.23 Nonetheless, on many other occasions, adequate documented justification for CE's accommodation in superior suites was not available. Two examples are shown below. For these two examples, there was no documentary evidence to indicate that the CEO had enquired whether options were available for selecting a suite of a lower level than that recommended by the responsible ETOs.

Example 1

1. For CE's duty visit to Australia in June 2011 (see item (46) at Appendix B), there was no documented justification for CE's accommodation in presidential suites in Perth and Canberra. In response to the CEO's request for arranging hotel accommodation, the Sydney ETO made the following recommendations on hotel accommodation (with photos of presidential suites for the hotels attached to its e-mail) to the CEO:

- (a) staying in Hyatt Regency in Perth was recommended due to its level of comfort and reliability of service from previous experience. Its standard room rate was the cheapest and there was ample parking at the front for hired cars to standby; and
- (b) staying in Hyatt Hotel in Canberra was recommended as it was the only one that could be rated 5-star in real terms. It was conveniently located near Parliament House and the Chinese Embassy with ample parking space at the front for hired cars to standby. The HKSAR Government used this hotel for all other Principal Officials' visits in the past.

2. In the event, the CEO accepted the ETO's proposal and CE was accommodated in presidential suites for four nights in Perth and one night in Canberra. Total costs incurred amounted to HK\$93,625.

3. In May 2012, the ETO informed Audit that the accommodation requirements for CE included a facility which could accommodate 9 to 12 persons for meetings and media interviews. These were similar to requirements used in selecting hotel accommodation for previous CE visits. The ETO had considered four hotels for each city and it had conducted site inspections of the options, with pros and cons of each option discussed on site and evaluated afterwards. However, details of such evaluation had not been provided to the CEO when the ETO made the hotel recommendations in paragraph 1 above.

Example 2

1. For another duty visit to Washington DC from 8 to 10 November 2011 (see item (50) at Appendix B), the Washington ETO recommended CE to stay at a presidential suite of Mandarin Oriental Washington DC for the following reasons:

- (a) CE was accommodated in the presidential suite when he visited Washington DC in 2005. The presidential suite was completely renovated in September 2010;
- (b) the hotel was frequently used by high-ranking officials from the HKSAR Government. Its staff members had always been able to provide efficient services to officials from Hong Kong staying there as well as Washington ETO colleagues who dealt with the logistics; and
- (c) the hotel was managed by a Hong Kong hotel group.

2. According to the Washington ETO, the former CE (in 2001) and the incumbent CE (in 2005) were accommodated in superior suites when they last visited Washington DC. The ETO also took this factor into consideration when it formulated its recommendations on hotel choices and types of rooms for CE to the CEO.

3. In the event, CE was accommodated in the presidential suite for two nights in November 2011. Total costs incurred amounted to HK\$105,056.

2.24 With the duty visit to UK in September 2011 (see para. 2.14), we noted that the CEO had not defined the operational needs, nor provided sufficient information on the accommodation requirements to the London ETO to assist the latter in identifying and selecting appropriate hotel accommodation. Details are shown below.

Example 3

1. In June 2011, the London ETO provided hotel room quotations (with six hotel options) for CEO's consideration, stating that CE had been accommodated in the Mandarin Oriental Hyde Park in London during his last duty visit in November 2008.

2. Subsequently, the CEO requested the London ETO to recommend the choice of hotel by taking into consideration factors such as the operational requirement (to be in city centre, near meeting venues, avoid traffic jam), ambience, hotel's experience in receiving heads of state and heads of government, and the price.

3. In reply, the London ETO informed the CEO that the Chief Secretary (during a duty visit in 2009) and CE (during a private visit in 2010) had stayed at the Berkeley Hotel. Despite the lower room rate of the Berkeley Hotel, the London ETO finally recommended the more expensive Mandarin Oriental Hyde Park, stating that all Chinese state leaders stayed there during their London visits, and that this hotel had the experience in handling senior officials' visits.

4. The CEO finally decided to arrange for CE a 90-square metre presidential suite at the Mandarin Oriental Hyde Park at the cost of HK\$46,826 per night (see Table 1 in para. 2.14). It also stated the need to accommodate **10 or more** people during morning meetings with staff.

Audit comments

5. The CEO did not provide sufficiently clear guidelines to the London ETO to make recommendations on hotel accommodation. For example, there was no information about the **size of the hotel accommodation** required.

2.25 We noted that CE was on most occasions accommodated in superior suites during sponsored visits (e.g. during his visits to Belgium and USA in 2011, and his visits to New Zealand and Chile in April 2012). We also noted that many foreign dignitaries visiting Hong Kong (such as heads of states from Ukraine and Russia, and prime ministers from UK and Canada) had been accommodated in superior suites. **However, when government funds are involved, we would consider that the CEO and the ETOs should always be more cost conscious in their expenditure decisions. They should be more thorough in comparing the different classes of accommodation (including different levels of suites) available. In this regard, it would be desirable that in future, when requesting the ETOs to arrange hotel accommodation, the CEO should always specify clearly the accommodation requirements (e.g. special operational needs and class/size of accommodation required) and enquire about options regarding the different levels of suites/rooms in a particular hotel.** In this connection, we note that in the Mainland, the principle is that, provided that there is an operational need and with the exercise of economy, accommodation expenses incurred by officers at the vice-ministerial level and above are accountable and reimbursable (Note 8).

Need to consider the use of hotel meeting/function rooms for holding meetings

2.26 In choosing the size of the hotel accommodation, the CEO would consider the requirements of any meetings to be held in the hotel, including contingent requirements which are unforeseen, such as media interviews to be arranged at short notice and urgent internal meetings prompted by special circumstances in Hong Kong. **To ensure the making of a well-informed and cost-effective decision on class of accommodation, it would appear that the CEO and the ETOs should, when determining the type of accommodation for CE's duty visits, take into account meeting/function rooms for hire or use by hotel guests. They should assess whether the hire of such rooms will meet the same operational requirements at a lower cost when the entire package of accommodation and meeting rooms is taken into account.** An example is shown below.

Note 8: *The principle is promulgated in "Notice on the standard and management of costs and expenses concerning officials on overseas duty visits" issued by the Mainland Ministry of Finance and Ministry of Foreign Affairs in 2001.*

Example 4

1. For CE's duty visit to Brasilia in April 2012, the Washington ETO recommended the Royal Tulip Brasilia Alvorada to the CEO on the following grounds:

- (a) Brasilia is a relatively small city. Two other hotels are located at the city centre while Royal Tulip, though not at the heart of the city centre, is conveniently located (additional travelling time should be within 10 minutes if Royal Tulip is picked) and also close to where the proposed meetings (e.g. meetings with the President and senior officials of Brazil as well as Chinese Ambassador) will take place;
- (b) it is gathered from the Chinese Embassy that many national leaders were accommodated in Royal Tulip during their visits to Brasilia, which is known for serving VVIPs. It is hardly surprising given that the hotel management of Royal Tulip is much more responsive to the ETO's requests as compared with the other two hotels. Furthermore, Royal Tulip also compares favourably with the other two hotels in other aspects, such as the lobby capacity in handling a large delegation; and
- (c) Royal Tulip is located in a nice neighbourhood where the President and Vice President's official residences are located, with better security measures. Though not the most important consideration, Royal Tulip also has a much bigger vehicle waiting area than the others which would afford the HKSAR delegation better operational flexibility, bearing in mind CE has a pretty big entourage.

2. According to the Washington ETO, the former CE (in 2001) and the incumbent CE (in 2005) were accommodated in superior suites when they last visited Washington DC. Moreover, the Chilean Government had offered to provide CE with a superior suite during his stay in Santiago in April 2012. The Washington ETO also took these factors into consideration when it formulated its recommendations on hotel choices and types of rooms in Brazil for CE to the CEO.

3. As regards hotel rates, the Washington ETO informed the CEO that while the presidential suite rate of Royal Tulip alone was comparatively on the high side, the hotel had offered very competitive room rates for the suite (for Director/CEO) and standard rooms (for CE's accompanying staff). Taking into account the total package for the whole delegation in entirety which appeared reasonable, the service quality and the track records of the hotel in serving dignitaries, the Washington ETO considered that Royal Tulip was a value-for-money and recommended choice. Details of the two classes of suites and standard room at Royal Tulip were then as follows:

(To be continued)

(Cont'd)

Room type	Size (square metres)	Hotel charge per night (US\$)
Presidential Suite	420	6,900
Suite	74	290
Standard Room	33	190

4. In the event, the CEO accepted Washington ETO's recommendation that CE and his accompanying staff should stay at Royal Tulip and arrangement was made to accommodate CE in a presidential suite.

5. In May 2012, we made enquiries with the CEO about the reasons for booking a presidential suite of Royal Tulip for CE. The CEO informed us that the booking had taken into account operational needs such as internal meetings and media interviews and the overall cost for the package of rooms required.

Audit comments

6. With the benefit of hindsight, we noted from the CEO's post-visit report that CE had eventually used the presidential suite for a meeting with his accompanying staff for 25 minutes only. No other official meetings had been held in the suite.

7. While accepting that contingent requirements have to be taken into account in the selection of accommodation, there is a lesson to be learned in that the CEO should consider using the hotel meeting/function rooms to meet such requirements which may or may not arise at the end. One should assess whether such meeting/function rooms are readily available for use and whether they will meet the same operational requirements at a lower cost when the entire package of accommodation and meeting rooms is taken into account.

Need to prepare cost budgets for CE's duty visits

2.27 At the beginning of each financial year, the CEO will earmark funds for CE's duty visits under the Annual Estimates of the Government's General Revenue Account (Note 9). According to the CEO, this is a ballpark allocation taking into account past trends and the number/types of duty visits being planned for the year. The CEO considered it not practical, if not operationally impossible, to set a budget for each visit in advance, when the key features of each visit, including programme, timing and duration were under planning and would not be finalised until a late stage. The CEO has also explained that it controls the actual expenditure of individual duty visit outside Hong Kong by following the practices set out in paragraphs 2.4 to 2.10.

2.28 While noting the CEO's explanation, we maintain that it is a good practice to prepare a cost budget before each duty visit. 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 visit. In fact, it is always a good corporate governance practice to prepare cost budgets, with proper procedures for approving post-budget revisions. These provide a form of monitoring and ensure that informed expenditure decisions, including those on accommodation, are made.

Need to improve the scope of post-visit review

2.29 After each duty visit, the CEO and relevant ETOs would conduct a comprehensive post-visit review. For example, it was reported that CE's visit to UK in September 2011 (see para. 2.14) had generated much goodwill and renewed a lot of interest in Hong Kong amongst senior political and business leaders in UK. CE had met with various key UK political leaders and had officiated at the annual Hong Kong Trade Development Council London Dinner, as well as attending a number of high profile events. He had also met with the UK Prime Minister and Secretary of State for Foreign and Commonwealth Affairs. CE had updated them on the latest economic and political developments in Hong Kong. The post-visit review report stated that UK's interest in offshore RMB business provided a good opportunity for collaboration between Hong Kong and UK, while there was also much room for further cooperation in the areas of trade and investment, education, culture and sport between Hong Kong and UK (including Scotland).

Note 9: *According to the CEO, initial funds set aside for CE's duty visits in 2007-08 to 2012-13 were HK\$1.5 million, HK\$1.2 million, HK\$1.3 million, HK\$1.8 million, HK\$1.9 million and HK\$2.0 million respectively.*

2.30 We welcome the conduct of a post-visit review after each duty visit. 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 for the visit. Establishing the total expenditure incurred for each duty visit is important because it can give a more comprehensive picture to assist the post-visit evaluation.

2.31 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 (see item (55) at Appendix B), HK\$0.87 million had been spent by the Washington ETO in making preparatory visits (details are described in PART 3).

Audit recommendations

2.32 Audit recommendations to address the above areas for improvement are included in PART 4.

PART 3: ROLE OF HONG KONG ECONOMIC AND TRADE OFFICES

3.1 This PART examines the role of ETOs in hotel accommodation arrangements for two of CE's duty visits outside Hong Kong, one to USA in November 2011 and another to Chile, Brazil and New Zealand in April 2012 (see items (50) and (55) at Appendix B).

3.2 For CE's duty visit to USA, we have found that apart from HK\$1.5 million incurred by the CEO, the San Francisco ETO, the Washington ETO and the Trade and Industry Department (TID) had together spent HK\$0.47 million in three preparatory visits to Honolulu (Note 10).

3.3 For CE's duty visit to Chile, Brazil and New Zealand in April 2012, we have found that apart from HK\$1.1 million incurred by the CEO, the Washington ETO had also spent HK\$0.87 million in making two preparatory visits (one in December 2011 and another in March 2012).

Chief Executive's duty visit to USA in November 2011

3.4 At the invitation of the US Government, CE led a delegation (Note 11) to attend the 19th APEC Economic Leaders' Meeting and related events from 11 to 13 November 2011 in Honolulu, Hawaii. From 7 to 10 November 2011, CE and his spouse, accompanied by eight officers from the CEO, also visited Boston, New York and Washington DC to meet with political and business leaders. CE did not stay overnight in Boston and his hotel accommodation in Honolulu was partly sponsored by the host.

Hotel accommodation provided

3.5 The hotel accommodation provided to CE and his accompanying staff, funded by the HKSAR Government, is summarised in Table 3.

Note 10: *This included HK\$0.11 million incurred by the San Francisco ETO and the TID for two preparatory visits (one in December 2010 and another in February 2011), and HK\$0.36 million incurred by the San Francisco ETO, the Washington ETO and the TID in response to an invitation from the US Government, the host of the 2011 APEC meeting, to attend the APEC Pre-Advance Visit in September 2011. According to the San Francisco ETO, the Pre-advance Visit, unlike the first two preparatory visits, was not solely undertaken for the preparatory work in relation to CE's visit.*

Note 11: *The delegation included representatives from the CEO, the ISD, the TID, the San Francisco ETO and the Washington ETO.*

Table 3

Hotel accommodation for CE's duty visit to USA in November 2011

Place of visit	Hotel	Room type (Note 1)	Number of nights	Hotel charge per night (Note 2)
New York	Waldorf Towers	Presidential Suite (complimentary upgrade from Grand Suite — Note 3)	1	US\$5,177 (HK\$41,017)
		Tower King Room	1	US\$629 (HK\$4,905)
Washington DC	Mandarin Oriental Washington DC	Presidential Suite (see Example 2 in para. 2.23)	2	US\$6,624 (HK\$52,528)
		Deluxe Room	2	US\$411 (HK\$3,251)
Honolulu	Hilton Waikiki Beach Hotel	2-bedroom Ocean View Presidential Suite (see Example 5 in para. 3.6)	1 (Note 4)	US\$2,849 (HK\$22,601)
		Regular guest room	4	US\$329 (HK\$2,569)

Source: CEO records

Note 1: CE was accommodated in superior suites whereas his accompanying staff were accommodated in standard or deluxe rooms.

Note 2: The expenditure in Hong Kong dollars represented the actual amount paid by the HKSAR Government.

Note 3: For CE's accommodation in New York, the New York ETO recommended Waldorf Towers for various reasons, including that its hotel charges were the cheapest among a few other hotels of the same grade and that CE was accommodated there in 2005. The CEO chose the Grand Suite for CE, which was then the highest tier of rooms in the list of available hotel room types (ranging from Regular Room to Grand Suite) provided by the New York ETO for the CEO's consideration in its e-mail. In the event, the hotel upgraded CE's accommodation to presidential suite at no additional charge.

Note 4: The APEC host sponsored CE's hotel accommodation for three nights and the cost for an additional night was borne by the HKSAR Government.

Audit observations and recommendations

CE's accommodation in New York and Honolulu also needs to be justified

3.6 In Example 2 under paragraph 2.23, we found that adequate documented justification was not available for CE's accommodation in superior suites during his visit to Washington DC in November 2011. The same happened with his accommodation in New York and Honolulu (see Note 3 to Table 3 and Example 5 below).

Example 5

1. For the visit to Honolulu, CE's hotel accommodation was sponsored by the host for three nights with a limit of US\$4,000 per night and an additional night was borne by the HKSAR Government. In February 2011, three hotels were recommended to the CEO.
2. In March 2011, the CEO decided to select a one-bedroom mountain-view presidential suite of the Hilton Waikiki Beach Hotel as CE's accommodation at a charge of US\$1,368 per night.
3. In June 2011, the TID informed the CEO about the availability of a two-bedroom ocean-view presidential suite at the same hotel with a charge of US\$2,849 per night, which had been secured by the hotel management on its own initiative for CE. Subsequently, the CEO confirmed its choice for the two-bedroom ocean-view presidential suite.
4. According to the post-visit report, no meetings had been held in CE's suite during the additional night.

Audit comments

5. According to CEO records, there was no documented justification for changing CE's hotel accommodation from a one-bedroom mountain-view presidential suite to a two-bedroom ocean-view presidential suite. Without documented justifications, there is a risk that the decision to select this class of accommodation may not be well justified with regard to relevant considerations including the moderate and conservative principle. **The CEO needs to ensure that justifications for choosing hotel accommodation are always properly documented.**

High in-town transportation expenditure

3.7 As mentioned in paragraph 3.2, the two ETOs, together with the TID, had also spent HK\$0.47 million in preparatory visits. While recognising that the third preparatory visit was not solely undertaken in relation to CE's visit (see Note 10 to para. 3.2), the expenditure appears high as compared with HK\$1.5 million spent by the CEO. We have found that the ETOs and the TID had not always complied with the moderate and conservative principle in their expenditure decisions. For example, they had used an expensive mode of transport for hotel visits during their first and second preparatory visits in Honolulu. As a result, total in-town transportation expenses of US\$4,701 (HK\$36,700) were incurred. Details are shown in Example 6 below.

Example 6

1. According to the ETO Administration Manual, in selecting the appropriate mode of in-town travelling, consideration should be given to the operational need as well as cost-effectiveness. In view of the high cost, the Manual has laid down that the use of limousine should only be used in very exceptional and justifiable cases where the use of taxi/hired car and other public transport is considered unsuitable or impracticable.

2. We noted that during the joint visits by the San Francisco ETO and the TID in Honolulu, they had hired a chauffeur-driven car in the first and second preparatory visits, incurring a total cost of US\$4,701 (HK\$36,700) for carrying out hotel visits over five days.

3. In response to our enquiry as to why lower-cost transportation means were not used, the San Francisco ETO informed Audit in May 2012 that:

- (a) hiring a chauffeur-driven car for in-town transportation was operationally necessary because the hotel management was only available during office hours. As a result, very tight visit programmes needed to be drawn up. During the two visits, the TID and the San Francisco ETO had jointly conducted 20 hotel visits and 3 meetings;
- (b) other more economical means of public transport was not operationally feasible as taxi service was not reliable and could be hard to come by in the tourist areas where the hotels were. This was borne out by on-the-ground experience of the San Francisco ETO. The TID did use taxi service for the meeting with hotel management on one occasion in December 2010. However, the unavailability of taxis had affected the visit programme and resulted in serious delays to the meetings. Given the packed itineraries and the first-hand experience of both the TID and the San Francisco ETO, the use of taxi service was not considered practical;

(To be continued)

(Cont'd)

- (c) all hotel visits had to be conducted within office hours so that the TID and the San Francisco ETO could meet with the hotel management. It was therefore very important to keep to the schedules as delay of one hotel visit would have knock-on effect on the appointments that followed; and
- (d) if taxis were to be used, a larger margin would need to be allowed in between visit points, and the visits had to be spread over a longer duration, resulting in extra nights of stay for staff of the San Francisco ETO and the TID in Honolulu, and incurring additional hotel expenditure and subsistence allowance. After weighing the relative costs, the TID and the San Francisco ETO considered that using a chauffeur-driven car was more cost-effective.

4. In May 2012, the TID informed us that while some of the hotels might be close to one another, it was sometimes impossible to choose the most direct route for visiting the hotels. Given that the meeting times were subject to the availability of the hotel management, it was impossible for hotels to be visited in order of proximity. Thus, the hotels in actual order of visits might not be within walking distance, and reliable pre-arranged transportation was therefore necessary.

5. In May 2012, the San Francisco ETO also informed us that whether an ETO could actually count on taxis or other cheaper means of transportation rather than the use of chauffeur-driven cars would very much depend on a range of factors including number of appointments to be held, distance between respective meeting places, reliability of taxi service, and degree of difficulties in securing taxis at the meeting places concerned.

Audit comments

6. Audit notes that:

- (a) according to the Hawaii's Official Travel website (www.gohawaii.com), taxis are a great way to travel, and calling for taxis by phone or via hotel concierge is the norm in Hawaii; and
- (b) hotels can normally arrange taxis for their guests. In fact, some of the hotels visited by the San Francisco ETO were not far from each other, with a few of the hotels within walking distance (see section I at Appendix F).

(To be continued)

(Cont'd)

7. It would appear that the San Francisco ETO and the TID had not been cost conscious in hiring the chauffeur-driven car for use in the two preparatory visits. The use of Internet to obtain information about hotel accommodation might have made it possible to reduce the number of hotels to be visited. Furthermore, through better route planning and pre-arrangement of meetings with the hotel management, it could have been possible to reduce the overall travelling distance and make use of taxis to conduct the visits within the time schedule.

8. Taking the first preparatory visit as an example, we estimate that travelling by taxis to conduct the hotel visits in accordance with the planned programme of the first preparatory visit (see section II at Appendix F) would cost less than HK\$2,000, which is significantly less than the cost of hiring a chauffeur-driven car at HK\$14,500 for the visit.

Audit recommendations

3.8 Audit recommendations to address the above issues are included in PART 4.

Chief Executive's duty visit to Chile, Brazil and New Zealand in April 2012

3.9 In April 2012, CE visited Santiago in Chile, Brasilia and Sao Paulo in Brazil and Auckland in New Zealand to advance Hong Kong's economic and trade relations with the three countries and to promote Hong Kong's advantage as China's global financial centre, and as a platform for businesses to develop their RMB portfolios. CE and his spouse were accompanied by five officers from the CEO, one officer from the TID and two officers from the ISD. As CE's hotel accommodation for the visit to Chile and New Zealand was sponsored by the respective governments, it was not examined in this audit.

Audit observations and recommendations

Hotel accommodation provided

3.10 The hotel accommodation provided to CE and his accompanying staff, funded by the HKSAR Government, is summarised in Table 4.

Table 4

Hotel accommodation for CE's duty visit to Brazil in April 2012

Place of visit	Hotel	Room type (Note 1)	Number of nights	Hotel charge per night (Note 2)
Brasilia	Royal Tulip Brasilia Alvorada	Presidential Suite	1	US\$6,900 (HK\$52,027)
		Standard Room	1	US\$190 (HK\$1,405)
Sao Paulo	Renaissance Sao Paulo Hotel	May Flower Suite	1	US\$1,250 (HK\$9,339)
		Deluxe Room	1	US\$360 (HK\$2,700)

Source: CEO records

Note 1: CE was accommodated in superior suites whereas his accompanying staff were accommodated in standard or deluxe rooms.

Note 2: The expenditure in Hong Kong dollars represented the actual amount paid by the HKSAR Government.

3.11 As mentioned in paragraphs 2.22 and 2.26, the Washington ETO had recommended CE's accommodation in a renaissance suite of the Renaissance Sao Paulo Hotel and a presidential suite of the Royal Tulip Brasilia Alvorada during his visits to Sao Paulo and Brasilia respectively. We consider that the ETOs should be more cost conscious in making their future accommodation recommendations.

Officers involved in the preparatory visits

3.12 As mentioned in paragraph 3.3, the Washington ETO had spent HK\$0.87 million (Note 12) in preparatory visits, which appears high as compared with HK\$1.1 million spent by the CEO. We noted that quite a number of officers were involved in the two preparatory visits to Brazil and Chile, one in December 2011 and another in March 2012, as explained below.

Note 12: The Washington ETO informed us in May 2012 that over 85% of the expenditure was incurred on airfare which was expensive due to the long-haul flights of 10 to 11 hours between Washington DC and Chile/Brazil and the limited choice of airlines.

3.13 Three to five officers were involved in the individual leg of the preparatory visits. We noted that:

- (a) the Washington ETO established two teams (each comprising one directorate officer and one senior officer) to take charge of the detailed planning and coordination of the preparatory visit to Chile and Brazil respectively while the Commissioner for Economic and Trade Affairs, USA (the Commissioner) maintained the overall steer for the CE visit and served as the chief representative in discussions with interlocutors there. Each team only visited the cities it was responsible for. According to the Washington ETO, it was not possible to task one team of the Washington ETO officers to assist the Commissioner as this would seriously jeopardise their regular work in the Washington ETO;
- (b) during the first preparatory visit, the Commissioner, accompanied by two officers (i.e. one directorate officer and one senior officer from the Washington ETO), visited Brazil on 13 and 14 December 2011 and, accompanied by two other officers (i.e. another directorate officer and another senior officer from the Washington ETO), visited Chile on 15 and 16 December 2011; and
- (c) during the second preparatory visit, the Commissioner, accompanied by three officers (i.e. one directorate officer and one senior officer from the Washington ETO, and one officer from the TID), visited Chile from 15 to 17 March 2012 and, accompanied by four officers (i.e. another directorate officer and another senior officer from the Washington ETO, and two TID officers), visited Brazil from 18 to 21 March 2012.

As at December 2011 and March 2012, the Washington ETO had only three directorate officers, including the Commissioner. This means that at one time, two of them were actively involved in the preparatory visits (Note 13).

Note 13: *According to the Washington ETO, one directorate officer, underpinned by other officers and supporting staff, remained in the ETO at all times during the preparatory visits to take charge of the office. When the Commissioner travelled from time to time across the US as part of his responsibilities to promote Hong Kong, he continued to closely oversee the daily operation of the ETO with the assistance of the directorate officers and other staff seconded from Hong Kong.*

3.14 In response, the Washington ETO has said that the actual number of officials to be deployed to preparatory visits, if and when undertaken, would depend on the ETOs' assessment of manpower required. This would take into account a range of factors including, but not limited to, the number of cities to be covered, the duration of stay, the width and depth of the programme elements (including the number/scale/nature of promotional events held, size of attendance and venues), the size of the delegation and the ranking of the senior official(s) from Hong Kong, and the degree of cooperation from the governments/organisations concerned.

3.15 Taking the example of foreign dignitaries visiting Hong Kong, we note that it is a common practice for the countries concerned to send advance teams to Hong Kong for preparatory visits (and on some occasions to make more than one visit), and the same applies for cases where the countries have established consulate-generals in Hong Kong. We also note that HKSAR Government does not have an ETO in Latin America. **Notwithstanding this, given the high preparatory costs involved, we consider that the Washington ETO needs to optimise the number of officers deployed for preparatory visits.**

Audit recommendations

3.16 Audit recommendations to address the above issues are included in PART 4.

PART 4: WAY FORWARD

4.1 This PART explores practices in other economies and make recommendations to address issues identified in earlier PARTs of this Report.

Areas for improvement

4.2 In PARTs 2 and 3, we have identified the following areas that required improvement:

CEO to:

- take into consideration the moderate and conservative principle in making hotel accommodation decisions having regard to circumstances relevant to CE's duty visits
- explore the feasibility of developing internal rules and principles to govern the choice of accommodation
- seek approval from PermSecy/CEO for paying an enhanced subsistence allowance to CE as an effective check and balance
- consult CE, where exceptions have to be made to the internal rules and principles, on hotel accommodation decisions
- continue to monitor the increasing trend of CEO expenditure on CE's duty visits
- justify CE's accommodation at superior suites in hotels and maintain proper documentation on expenditure decisions made
- specify clearly the requirements and enquire about options when it requests the ETOs to arrange for hotel accommodation
- consider the use of hotel meeting/function rooms for meetings and media interviews as an alternative to holding them in CE's hotel suite
- prepare cost budgets before duty visits
- improve the scope and ascertain actual costs in post-visit review

ETOs to:

- take into consideration the moderate and conservative principle in making hotel accommodation recommendations having regard to circumstances relevant to CE's duty visits
- optimise the number of ETO officers to be involved in making preparatory visits

4.3 We have conducted research and identified some good practices that are adopted in other countries/states, as follows:

- (a) *Some economy rules and principles are laid down to govern travels by Ministers.* For example, in **UK**, the following requirements have been laid down in the Ministerial Code issued by its Cabinet Office (May 2010):

- Ministers should make it their personal responsibility to approve the size and composition of Ministerial delegations for which their department is responsible, keeping delegations as small as possible.
- Ministers will wish to be satisfied that their arrangements could be defended in public.
- Offers of free travel should not normally be accepted. The only exception to this is in the case of an offer of transport from an overseas government provided no undue obligation is created.

Source: UK Cabinet Office's website (www.cabinetoffice.gov.uk)

Similarly, the **New South Wales Government of Australia** has laid down the following principles to govern overseas travels by Ministers in its Policy on Official Travel within Australia and Overseas (February 2009) and the Personnel Handbook of the Public Service Commission (March 2012):

- Alternative methods of communicating over long distances, such as teleconferencing and video conferencing, should always be explored prior to considering travel.
- The Premier has asked Ministers to exercise the strictest economy in approving overseas travel and ensure that it can be funded within the budget allocation for the organisation concerned. Significant benefits to the Minister's own administration and/or the State should be demonstrated before approval is given.
- Ministers are to be personally satisfied that procedures are in place establishing that a proposed visit is essential and that significant benefit will accrue to the administration or to the State. Sound reasons should be advanced in support of any recommended proposals.

Source: Websites of the Department of Premier and Cabinet (www.dpc.nsw.gov.au) and the Public Service Commission (www.psc.nsw.gov.au)

Although the above two examples do not exactly relate to arrangements for accommodation, they provide good references to the economy principle to be adopted in considering hotel accommodation during overseas travels;

- (b) ***Proactive disclosure.*** For better public accountability, it will be desirable for governments to enhance transparency by publicising at periodic intervals details of major overseas visits undertaken by top leaders, such as the Ministers. This practice is adopted in countries/states such as UK, Canada and New South Wales of Australia. Details of the practices adopted in these countries and states are shown below:

UK

- According to the Ministerial Code (May 2010), departments will publish, at least quarterly, details of all travel overseas by Ministers.
- For example, it was reported in the website of the Cabinet Office that the total cost including travel and accommodation of the Prime Minister only was GBP18,200 for a 2-day duty visit to attend a meeting in Russia in September 2011 (with a delegation of 21 officials).

Source: UK Cabinet Office's website (www.cabinetoffice.gov.uk)

Canada

- Since 2003, the Canadian Government has set a new policy requirement for the mandatory publication of travel and hospitality expenses for selected government officials.
- According to the Government's Policies for Ministers' Offices (January 2011), Ministers are required to post on their respective departmental websites all travel expenses incurred on a program-related business on a quarterly basis. The following information should be included:
 - the period covered by the trip and the places visited
 - transportation expenses
 - other expenses (such as accommodation and meals)

Source: Websites of the Courts Administration Service (www.cas-satj.gc.ca) and the Treasury Board of Canada Secretariat (www.tbs-sct.gc.ca)

New South Wales of Australia

According to the Ministers' Office Administration Handbook (February 2012), Ministers are required to publish on an appropriate agency website, within 28 days of returning from an overseas trip, information concerning the travel undertaken by them or their staff, including the following information:

- The portfolios to which the trip relates
- A detailed description of the purpose and benefits of the travel to the State of New South Wales
- The destinations visited
- The date of travel
- The number of persons who accompanied the Minister, including Ministers' advisers, agency staff and, in accordance with relevant guidelines, family members
- The total cost of airfares
- The total cost of accommodation
- The total cost of other expenses (including travel allowances)

According to the Policy on Official Travel within Australia and Overseas (February 2009), public sector organisations or services within a Minister's portfolio should retain a centralised record of official travel overseas. Each occasion of overseas travel, its date and duration, the officer(s) travelling, purpose, the cost and funding source need to be justified and recorded by agencies for audit purposes.

Source: The Department of Premier and Cabinet's website (www.dpc.nsw.gov.au)

- (c) *Use of corporate credit cards.* Corporate credit cards are a convenient means of paying expenses during official overseas travels. The use of such cards can facilitate officers on duty visits who do not need to pay expenses using their own credit cards and claim reimbursements after duty visits, or claim travel advances beforehand. To the offices, the use of corporate credit cards can save much administrative efforts and costs in settling claims for reimbursement. We note

that 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. They are particularly useful when there are frequent overseas duty visits for the offices.

4.4 The good practices of other places (such as proactive disclosure and use of corporate credit cards) could be adopted by the CEO in developing its own rules and principles to better manage hotel accommodation expenditure. Such rules and principles will ensure that the expenditure decisions are made in compliance with the moderate and conservative principle.

Audit recommendations

4.5 In respect of CE's duty visits outside Hong Kong, Audit has *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, having regard to:**
 - **the moderate and conservative principle on the use of government funds; 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;**
- (b) **where exceptions have to be made to the internal rules and principles drawn up, consult CE on the hotel accommodation decisions, so that he is given the opportunity to direct the making of alternative arrangements;**
- (c) **seek approval from PermSecy/CEO for paying an enhanced subsistence allowance to CE, to provide consistency in the processing of applications within the CEO and an effective check and balance;**
- (d) **specify clearly the accommodation requirements when requesting ETOs to arrange hotel accommodation for CE's duty visits;**

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- (e) **consider the use of hotel meeting/function rooms for meetings as an alternative and assess whether their use will meet the same operational requirements at a lower cost when the entire package of accommodation and meeting/function rooms is taken into account;**
 - (f) **ensure that not only the choice of hotel, but also that of the class of accommodation for CE and his accompanying staff are properly justified and documented, and can withstand public scrutiny;**
 - (g) **prepare cost budgets before each duty visit to facilitate the monitoring of expenditure;**
 - (h) **incorporate in post-visit reviews the need to ascertain actual costs incurred by all parties involved and explore areas for improvement in future visits;**
 - (i) **consider proactive disclosure of CE's duty visit expenditure, including hotel accommodation and other related expenditure (e.g. airfares and ground transportation charges);**
 - (j) **explore the use of corporate credit cards to facilitate payments during official overseas travels; and**
 - (k) **remind ETOs/departments to:**
 - **bear in mind, when making accommodation arrangements, the moderate and conservative principle and the audit recommendations set out in (a) to (j) above; and**
 - **optimise the number of officers to be involved in preparatory visits.**

Response from the Administration

4.6 The CEO shares our expectations in paragraph 1.9 and, with these expectations in mind, agrees generally with the audit recommendations in paragraph 4.5.

- 4.7 **The Secretary for Commerce and Economic Development** has said that:
- (a) CEDB and the ETOs have always borne in mind the moderate and conservative principle when planning for VIP visits to overseas and in making accommodation arrangements; and
 - (b) CEDB had in fact examined the use of corporate credit cards by overseas ETOs in 2006, but most of them encountered practical difficulties in applying for corporate credit cards from the banks in their host countries. The banks were unwilling to issue corporate credit cards to the ETOs because they were not incorporated and had no credit histories. Eventually, after consulting the Financial Services and the Treasury Bureau, CEDB decided to abandon the proposal in 2008. However, the Government is prepared to re-examine the merits of the proposal.
- 4.8 **The Commissioner for Economic and Trade Affairs, United States of America** agrees with the audit recommendations in paragraph 4.5(k).
- 4.9 **The Director-General, Hong Kong Economic and Trade Office, London** has said that:
- (a) accommodation requirements should be clearly set out for ETOs to recommend and arrange hotel accommodation; and
 - (b) consideration should be given to the use of meeting/function rooms when determining the class of accommodation. Having said that, meeting/function rooms are not always available, as meetings (such as media interviews) are normally arranged at very short notice and the meeting/function rooms of the hotels concerned might have been booked by third parties already. Given that these meetings may be subject to changes or cancellation, charges may have to be incurred in case a meeting has to be rescheduled or cancelled at short notice (which is not uncommon) if the hotel is inflexible on such changes.

Letter from Chief Executive of
the Hong Kong Special Administrative Region Government



25 April 2012

Mr TANG Kwok Bun, Benjamin, JP
Director of Audit
25/F & 26/F
Immigration Tower
7 Gloucester Road
Wanchai
Hong Kong

Dear Director,

As discussed this morning, I would like to invite the Audit Commission to review the current mechanism adopted by the Chief Executive's Office in making arrangements for hotel accommodation during the Chief Executive's duty visits outside Hong Kong. The purpose is to identify whether, and if yes how, the current mechanism should be improved, to ensure that appropriate arrangements are made to meet the objectives and operational needs of the visits.

Colleagues in my office stand ready to brief you or your colleagues on the existing mechanism.

Yours sincerely,

A handwritten signature in red ink, appearing to read 'Donald Tsang', written over a horizontal line.

(Donald Tsang)
Chief Executive

中華人民共和國香港特別行政區行政長官辦公室
Chief Executive's Office, Hong Kong Special Administrative Region of the People's Republic of China

電話 : +852 2878 3300 傳真 : +852 2509 0580 電郵 : ceo@ceo.gov.hk
Telephone: +852 2878 3300 Fax: +852 2509 0580 E-mail: ceo@ceo.gov.hk

Appendix B
(paras. 1.8, 2.3, 2.14, 2.21 to 2.23,
2.31 and 3.1 refer)

**Chief Executive's duty visits outside Hong Kong
(July 2007 to April 2012)**

	Date of trip	Place of visit	No. of nights in hotel	CE, his spouse (if accompanying) and CEO staff (No.)	Hotel accommodation expenses (Note 1) (HK\$)	CEO total expenditure (Note 2) (HK\$)
1.	5-12 Sept 2007	Australia & New Zealand		7		440,923
		— Sydney	3 (a) 1 (c)		85,862	
		— Wellington	2 (a)		5,465	
		— Auckland	1 (a)		3,651	
2.	21-24 Nov 2007	Beijing & Guangzhou		7	12,051	84,940
		— Beijing	2 (a)			
		— Guangzhou	1 (b)			
3.	4 Jan 2008	Guangzhou	—	7	—	2,940
4.	25 Jan – 1 Feb 2008	Kuwait, Saudi Arabia & United Arab Emirates		6		247,921
		— Kuwait	2 (a)		—	
		— Riyadh	1 (a)		—	
		— Abu Dhabi	1 (c)		61,896	
		— Dubai	1 (b)		34,918	
5.	4-6 Mar 2008	Beijing	2 (a)	6	—	69,454
6.	17-19 Mar 2008	Beijing	2 (a)	6	—	69,601
7.	11-13 Apr 2008	Hainan	2 (a)	5	4,394	43,007
8.	25-27 Apr 2008	Wuhan	2 (a)	4	—	20,583

Appendix B

(Cont'd)

(paras. 1.8, 2.3, 2.14, 2.21 to 2.23, 2.31 and 3.1 refer)

	Date of trip	Place of visit	No. of nights in hotel	CE, his spouse (if accompanying) and CEO staff (No.)	Hotel accommodation expenses (Note 1) (HK\$)	CEO total expenditure (Note 2) (HK\$)
9.	16-18 May 2008	Singapore	2 (a)	7	16,202	114,842
10.	30 May – 1 Jun 2008	Shanghai	2 (a)	6	—	44,578
11.	11 Jun 2008	Guangzhou	—	6	—	2,015
12.	13 Jun 2008	USA — San Francisco	1 (b)	3	21,470	23,829
13.	27-29 Jun 2008	Chengdu	2 (c)	5	25,695	59,282
14.	19-26 Jul 2008	Northern China		4		56,588
		— Harbin	2 (b)		15,420	
		— Changchun	2 (a)		3,978	
		— Shenyang	2 (b)		15,420	
		— Dalian	1 (b)		4,380	
15.	4-5 Aug 2008	Guangzhou	1 (b)	5	11,736	19,461
16.	7-10 Aug 2008	Beijing	3 (a)	3	—	39,803
17.	18-25 Nov 2008	UK & Peru		8		1,542,034
		— London	2 (c)		93,260	
		— Lima	2 (a)		30,814	
18.	17-19 Dec 2008	Beijing	2 (a)	6	—	71,543
19.	26 Jan 2009	USA — Los Angeles	—	2	—	2,202
20.	16-20 Feb 2009	Japan & Korea		7		256,016
		— Tokyo	3 (b)		120,877	
		— Seoul	1 (a)		8,526	

Appendix B

(Cont'd)

(paras. 1.8, 2.3, 2.14, 2.21 to 2.23, 2.31 and 3.1 refer)

	Date of trip	Place of visit	No. of nights in hotel	CE, his spouse (if accompanying) and CEO staff (No.)	Hotel accommodation expenses (Note 1) (HK\$)	CEO total expenditure (Note 2) (HK\$)
21.	3-6 Mar 2009	Beijing	3 (a)	6	14,502	122,822
22.	17-18 Apr 2009	Hainan	1 (a)	6	—	63,515
23.	25-27 Apr 2009	Hefei	2 (a)	5	—	24,913
24.	9-10 Jun 2009	Nanning	1 (a)	4	—	14,963
25.	27 Sept – 2 Oct 2009	Beijing (Note 3)	5 (a)	13	12,540	788,750
26.	21-22 Oct 2009	Guangzhou	1 (b)	4	13,826	17,174
27.	12-16 Nov 2009	Singapore	3 (a) 1 (b)	8	117,053	269,361
28.	19-20 Dec 2009	Macao	1 (a)	7	—	13,399
29.	27-29 Dec 2009	Beijing	2 (a)	6	—	89,485
30.	3-6 Mar 2010	Beijing	3 (a)	7	—	81,203
31.	6-7 Apr 2010	Beijing	1 (a)	6	8,492	66,329
32.	9-10 Apr 2010	Hainan	1 (a)	4	6,307	25,698
33.	26 Apr – 1 May 2010	Shanghai, Nanjing & Jiangsu	5 (a)	7	12,685	93,140
34.	25-27 Jul 2010	Chengdu	2 (b)	5	11,023	64,359
35.	31 Aug – 2 Sept 2010	Russia — Moscow	2 (b)	8	86,945	444,743

Appendix B

(Cont'd)

(paras. 1.8, 2.3, 2.14, 2.21 to 2.23, 2.31 and 3.1 refer)

	Date of trip	Place of visit	No. of nights in hotel	CE, his spouse (if accompanying) and CEO staff (No.)	Hotel accommodation expenses (Note 1) (HK\$)	CEO total expenditure (Note 2) (HK\$)
36.	16 Sept 2010	Guangzhou	—	6	—	2,344
37.	25-26 Sept 2010	Nanchang	1 (a)	4	—	13,574
38.	20 Oct 2010	Shanghai	—	5	—	34,315
39.	25-29 Oct 2010	India		10		452,023
		— New Delhi	2 (b)		154,432	
		— Mumbai	2 (b)		64,405	
40.	30 Oct - 1 Nov 2010	Shanghai	2 (a)	4	—	33,340
41.	11-14 Nov 2010	Japan		10		245,437
		— Tokyo	—		—	
		— Yokohama	2 (a)		69,812	
			1 (b)			
42.	22-23 Nov 2010	Guangzhou	1 (b)	5	7,210	22,957
43.	20-23 Dec 2010	Beijing	3 (a)	7	—	99,621
44.	4-7 Mar 2011	Beijing	3 (a)	7	14,686	117,710
45.	14-15 Apr 2011	Hainan	1 (a)	4	—	23,188
46.	15-23 Jun 2011	Australia		7		715,488
		— Melbourne	2 (a)		—	
		— Perth	4 (b)		105,806	
		— Canberra	1 (b)		38,481	
		— Sydney	—		—	
47.	31 Aug – 2 Sept 2011	Urumqi	2 (a)	7	—	71,147

Appendix B

(Cont'd)

(paras. 1.8, 2.3, 2.14, 2.21 to 2.23, 2.31 and 3.1 refer)

	Date of trip	Place of visit	No. of nights in hotel	CE, his spouse (if accompanying) and CEO staff (No.)	Hotel accommodation expenses (Note 1) (HK\$)	CEO total expenditure (Note 2) (HK\$)
48.	8-17 Sept 2011	Belgium & UK		7		1,047,717
		— Brussels	2 (a)		45,168	
		— London	4 (b)		277,419	
		— Edinburgh	2 (b)		43,149	
49.	14 Oct 2011	Guangzhou	—	7	—	1,680
50.	7-15 Nov 2011	USA		10		1,512,539
		— Boston	—			
		— New York	1 (b)		75,355	
		— Washington DC	2 (b)		150,567	
		— Honolulu	3 (a)		104,807	
			1 (b)			
51.	25-28 Dec 2011	Beijing	3 (a)	6	—	75,668
52.	5-6 Jan 2012	Shanghai	1 (a)	4	—	29,257
53.	27-29 Jan 2012	Switzerland		7		892,601
		— Zurich	— (Day suite)		20,658	
		— Davos	2 (c)		81,524	
54.	4-6 Mar 2012	Beijing	2 (a)	7	10,144	92,538

Appendix B

(Cont'd)

(paras. 1.8, 2.3, 2.14, 2.21 to 2.23, 2.31 and 3.1 refer)

	Date of trip	Place of visit	No. of nights in hotel	CE, his spouse (if accompanying) and CEO staff	Hotel accommodation expenses	CEO total expenditure
				(No.)	(Note 1) (HK\$)	(Note 2) (HK\$)
55.	9-18 Apr 2012	New Zealand, Chile & Brazil		7		1,076,409
		— Auckland	2 (a)		18,779	
		— Santiago	3 (a)		27,724	
		— Brasilia	1 (b)		59,236	
		— Sao Paulo	1 (b)		23,096	
Total:			142		2,251,846	11,950,969
			<p>Made up of:</p> <p>93 (a) CE's hotel accommodation was sponsored by the host, involving superior suites on most occasions.</p> <p>41 (b) CE was accommodated in superior suites with cost borne by the HKSAR Government (Note 4).</p> <p>8 (c) CE was accommodated in suites other than superior suites with cost borne by the HKSAR Government.</p> <hr/> <p>142</p> <hr/>			

Legend:



For visits shaded, CE's hotel accommodation expenses were fully or partially borne by the HKSAR Government.

Source: CEO records

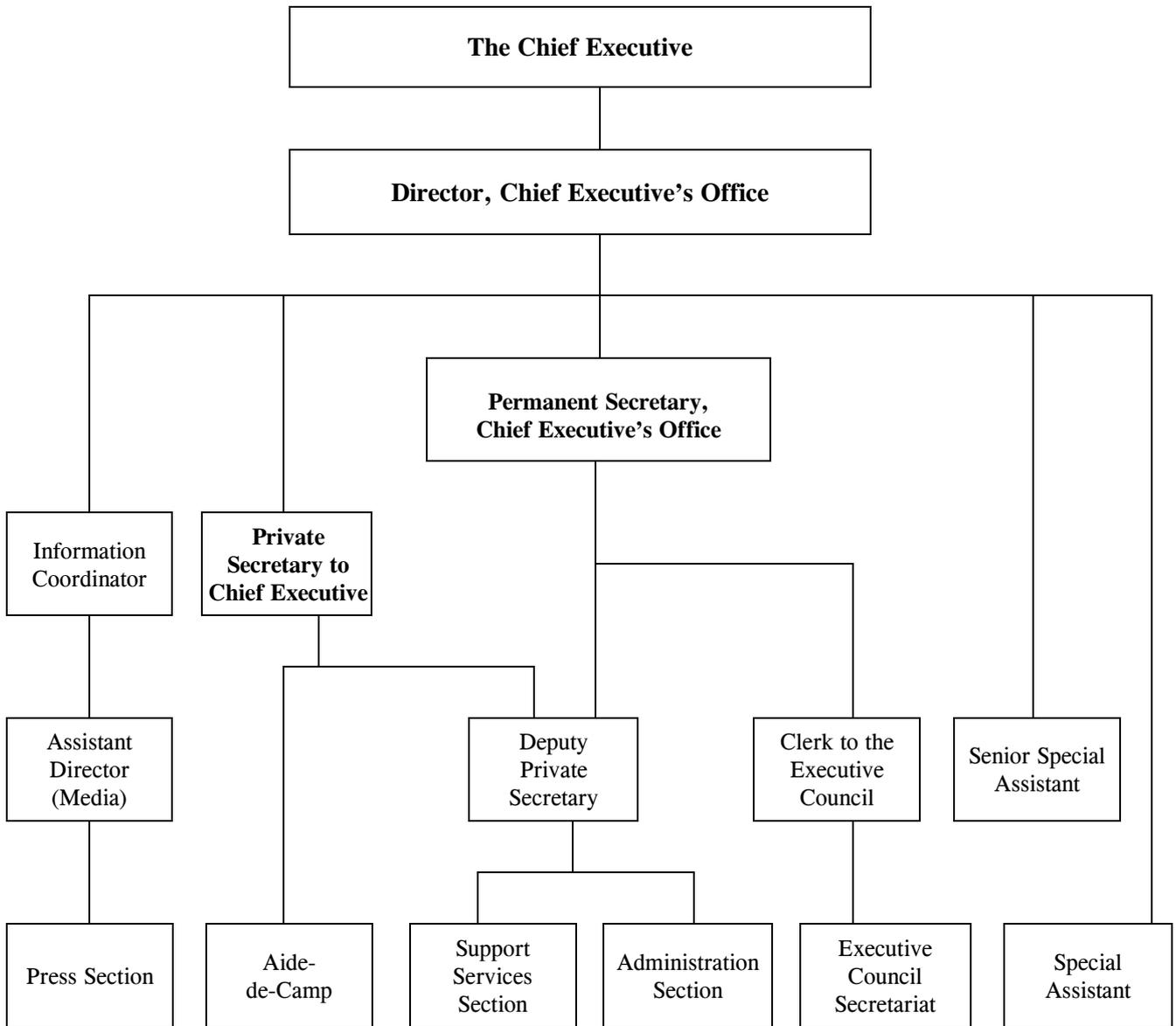
Note 1: Hotel accommodation expenses represented amounts paid for CE and CEO staff (with sponsored amounts deducted, if any). Sponsorship provided by the hosts usually covered CE's hotel accommodation only, with accommodation expenses for accompanying staff borne by the CEO.

Note 2: The CEO expenditure for each CE's duty visit included charges for accommodation and passage, subsistence allowance and sundry expenses, but not expenses incurred by relevant ETOs/departments for the visit.

Note 3: For this duty visit, the HKSAR Government had arranged a chartered flight for the Hong Kong delegation to attend the 60th Anniversary of the People's Republic of China commemorative events. The total cost borne by the CEO in respect of the chartered flight was HK\$545,366.

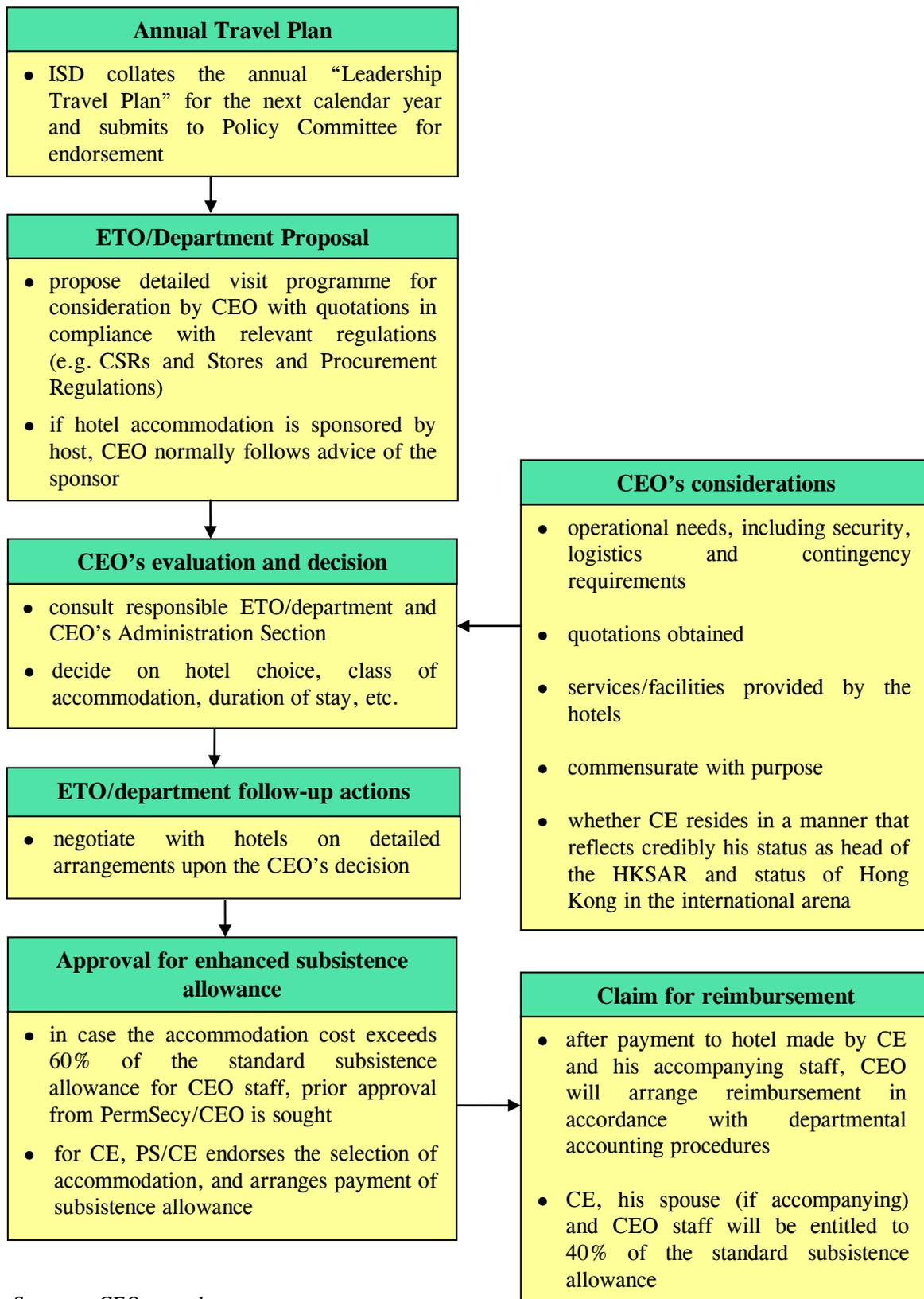
Note 4: For CE's accommodation in the Mainland, the hotel charges were generally lower than those elsewhere (mostly below HK\$6,000 per night). Nonetheless, because the hotel room type was classified by the hotels in question as the top or second top tier, we have regarded the room type as superior suite, in line with our definition in Note 6 to para. 2.14 of this Report.

**Chief Executive's Office: Organisation chart
(April 2012)**



Source: CEO records

Flowchart on the mechanism for arranging hotel accommodation



Source: CEO records

Appendix E
(paras. 2.8, 2.10(d) and
2.14 refer)

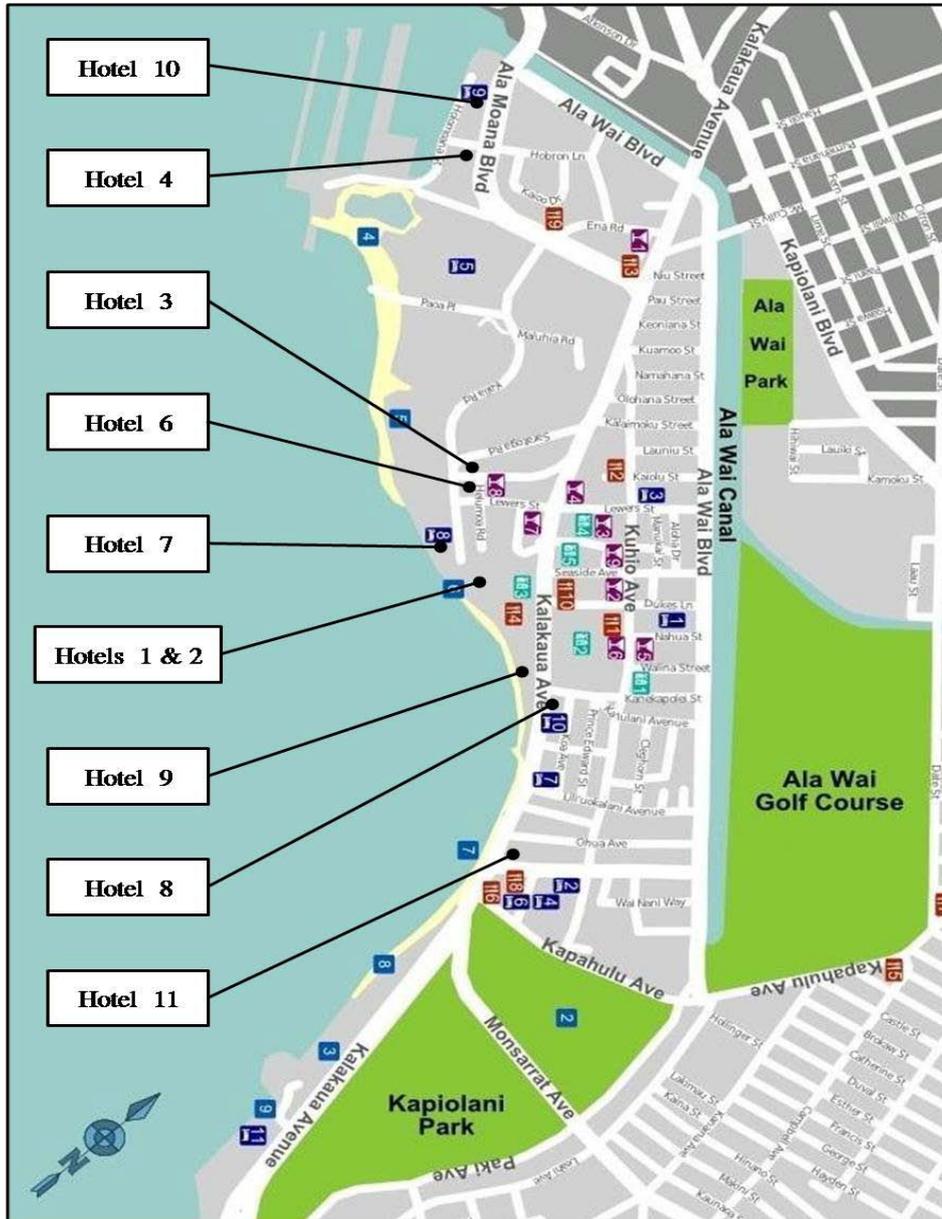
**Rates of subsistence allowance outside Hong Kong
(April 2012)**

Place of visit	Standard subsistence allowance per night (Local currency)	60% of standard subsistence allowance (Local currency)
Canberra	AUD 372	AUD 223
Melbourne	AUD 442	AUD 265
Perth	AUD 510	AUD 306
Sydney	AUD 403	AUD 242
Brasilia	BRL 557	BRL 334
Sao Paulo	BRL 667	BRL 400
Edinburgh	GBP 216	GBP 130
London	GBP 268	GBP 161
Tokyo	JPY 38,835	JPY 23,301
Chengdu	RMB 1,484	RMB 890
Guangzhou	RMB 2,077	RMB 1,246
Moscow	RUB 12,472	RUB 7,483
Honolulu	USD 256	USD 154
New York	USD 285	USD 171
Washington DC	USD 241	USD 145

Source: CSRs

Hotels visited in Honolulu

I. Location of the hotels



Source: Wikitravel's website

Remarks:

- (a) The San Francisco ETO and the TID visited Hotels 1 to 11 during their first preparatory visit to Honolulu. We have assigned the hotel numbers in the sequence of visits as scheduled in their planned programme (see section II on next page).
- (b) The estimated travelling distance from Hotel 10 to Hotel 11 is about 3 kilometres.
- (c) Hotel 5, not indicated in this map, is about 9 kilometres from Hotel 4.

Appendix F
(Cont'd)
(para. 3.7 refers)

II. For illustration purposes, the planned programme for the first preparatory visit to Honolulu is shown below:

Date	Time	Hotels to be visited
6 Dec 2010	2:00 p.m.	Hotels 1 and 2
	4:00 p.m.	Hotel 3
	5:00 p.m.	Hotel 4
	No official activity after 5:45 p.m.	
7 Dec 2010	9:00 a.m.	Hotel 5
	10:00 a.m.	Hotel 6
	11:00 a.m.	Hotel 7
	Official lunch at noon	
	2:00 p.m.	Hotel 8
	3:00 p.m.	Hotel 9
	4:00 p.m.	Hotel 10
	5:00 p.m.	Hotel 11
	Official dinner at 6:30 p.m.	

Source: San Francisco ETO's records

Acronyms and abbreviations

APEC	Asia-Pacific Economic Co-operation
Audit	Audit Commission
CE	Chief Executive
CEDB	Commerce and Economic Development Bureau
CEO	Chief Executive's Office
CSRs	Civil Service Regulations
ETO	Hong Kong Economic and Trade Office
HKSAR	Hong Kong Special Administrative Region
ISD	Information Services Department
PermSecy/CEO	Permanent Secretary, Chief Executive's Office
PS/CE	Private Secretary to the Chief Executive
TID	Trade and Industry Department