

# Corporate Governance

## THE MANAGEMENT BOARD

The Management Board is the governing body of the MPFA. The composition of the Management Board is stipulated by the Mandatory Provident Fund Schemes Ordinance (MPFSO). It is to consist of not fewer than 10 directors appointed by the Chief Executive of HKSAR (CE of HKSAR), and a majority of the directors must be non-executive directors. CE of HKSAR is to appoint one of the non-executive directors as the Chairman, and one of the executive directors as the Managing Director, who, by virtue of holding that office, is the Deputy Chairman. The roles of Chairman and Managing Director are segregated and CE of HKSAR determines the terms and conditions of office of the directors.

As at 31 March 2006, the Management Board consists of eleven non-executive directors and five executive directors. The current term of appointment of most of the directors will expire in March 2007. Mr Edward Chan King-sang was re-appointed as a non-executive director for a term of two years with effect from 17 March 2006. Information on the directors is set out on pages 12 to 15 of this report and published at the MPFA's website.

Members of the Management Board are required to declare their pecuniary interests in matters to be considered by the Board. Particulars of such disclosure made at meetings of the Board are recorded in a register available for public inspection.

The Management Board is responsible for making decisions on key corporate strategies and policies, approving the corporate plan and budget of the MPFA, and ensuring that business operations are properly planned, authorized, undertaken and monitored. Besides being supported by a number of committees, the Management Board delegates the management of day-to-day operations to the executives of the MPFA.

In the conduct of its business, the Management Board convened four meetings during the year, and additionally considered 19 papers by circulation. The average attendance rate of members was 84%.



### **SUPPORTING COMMITTEES**

A number of committees have been set up to give advice and assistance to, and perform functions delegated by the Management Board. Membership lists of the Management Board and its supporting committees are set out in Appendix 1.

#### **The Administration Committee**

The Administration Committee consists of three non-executive directors and one executive director. It advises the Management Board on the development of human resources policies and procedures as well as policies relating to general administration. It held three meetings during the year and additionally considered three papers by circulation. The average attendance rate of members was 92%.

#### **The Finance Committee**

The Finance Committee consists of three non-executive directors and one executive director. It advises the Management Board on the development of financial strategies and policies, examines and reviews the annual budget of the MPFA, and oversees the financial position and investment of the funds of the MPFA and the MPF Schemes Compensation Fund. During the year, it held two meetings and additionally considered nine papers by circulation. The average attendance rate of members was 88%.

#### **The Audit Committee**

The Audit Committee consists of four non-executive directors. It advises the Management Board on the appointment of the external auditor, oversees the implementation of the auditor's recommendations, reviews the annual financial statements before submission to the Management Board, and initiates special financial audits as and when necessary. It also reviews the management's reports on internal control systems, reviews the internal audit programme, and considers the major findings of internal investigations and management's response. The Audit Committee was established in October 2005 and had not held any formal meeting in the 2005-06 financial year.

#### **The Guidelines Committee**

The Guidelines Committee consists of two non-executive directors, one executive director and six co-opted members who are representatives of industry and professional bodies. It scrutinizes draft MPF guidelines and reviews and updates issued guidelines. It did not meet during the year, but had considered seven papers by circulation.



### The Tender Board

The Tender Board consists of two non-executive directors, MPFA's Head (Corporate Services) and one other executive director or head responsible for the subject under consideration. It considers the assessment of tender submissions conducted by the Assessment Panel comprising MPFA staff, reports tender assessment results, recommends the award of contract to a selected tender or the rejection of the tender submissions, and advises the Managing Director on matters regarding tender submissions. It met once during the year. The attendance of members was 100%.

### Attendance of directors at meetings

	MANAGEMENT BOARD	ADMINISTRATION COMMITTEE	FINANCE COMMITTEE	TENDER BOARD
<b>Number of meetings held during the year</b>	<b>4</b>	<b>3</b>	<b>2</b>	<b>1</b>
<b>DIRECTOR</b>				
Hon Charles Lee Yeh-kwong	4/4	3/3	2/2	
Mr Lee Kai-ming	3/4	3/3		
Hon Tam Yiu-chung	3/4			
Mr Kenneth Ting Woo-shou	3/4			1/1
Mr Edward Chan King-sang	3/4			
Mr Leo Kung Lin-cheng	4/4		1/2	1/1
Mrs Angelina Lee Wong Pui-ling	3/4			
Mr David Sun Tak-kei	3/4		2/2	
Hon Wong Ting-kwong	3/4	2/3		
Hon Stephen Ip Shu-kwan	3/4			
Hon Frederick Ma Si-hang	2/4			
Mrs Diana Chan Tong Chee-ching	4/4	3/3	2/2	
Ms Hendena Yu	4/4			
Mr Ernest Lee Shu-wing	4/4			
Mr Darren Mark McShane	4/4			
Mr Jimmy Woo Jack-man	4/4			



### ACCOUNTABILITY AND TRANSPARENCY

The MPFA is publicly accountable in its operations. It is required to submit a draft corporate plan and a budget of estimated expenditure to the Financial Secretary for approval before the start of each financial year. It is also required to deliver an annual report, together with audited financial statements and auditor's report, to the Financial Secretary. CE of HKSAR may also give directions with respect to the exercise by the MPFA of its functions.

To enhance transparency and promote effective communication with the public at large, the MPFA maintains a website, providing comprehensive information about the MPF System and the MPFA. The website carries all press releases of the MPFA, its publications, relevant statistics and its annual reports. In 2005-06, the website underwent a major revamp to enhance its functions and interactivity. Further details of the revamp are on page 61 of this report.

The MPFA publishes a quarterly Statistical Digest to provide statistics on MPF and ORSO schemes, including number of participants, contribution amount, asset size and asset allocation. The publication is distributed to employer and employee groups, industry associations, professional bodies, and other interested parties.

### INTERNAL CONTROL

#### Code of Conduct

To promote high ethical standards and fair dealings in the conduct of its business, the MPFA has adopted a Code of Conduct which has to be observed by all its employees. The Code sets out the expected standards of behaviour and reminds staff of their legal and contractual obligations to the MPFA. It also provides specific guidelines on various issues, such as confidentiality of information, the offer and acceptance of advantages, avoidance of conflicts of interest, declaration of financial and other interests, etc.

Regarding the regulations governing the taking up of work by senior staff after leaving service, a senior staff member must obtain prior approval if, within six months after leaving service, he wishes to take up work in Hong Kong that may constitute a conflict of interest with that of the MPFA. The Memorandum on Conditions of Service signed by staff upon joining the MPFA and the confidentiality provision under the MPFSO also impose contractual and statutory obligations on staff members to keep confidential any information obtained in the course of performing their duties.



### Risk Management

The MPFA has in place a risk management programme to identify, assess and manage risks in a timely and systematic manner. A list of risks at the corporate level has been identified and compiled into a corporate risk register, and management plans have been drawn up. All departments have developed their own departmental risk registers and risk management plans. These were revised and updated in 2005-06. The risk assessment processes were also reviewed and simplified for better application and monitoring.

The delegation of the MPFA's regulatory and corporate functions to individual directors and executives is approved by the Management Board and documented as internal manuals. To achieve higher efficiency, and better internal control and risk management, the MPFA reviewed the existing delegation arrangements with regard to its statutory and administrative functions, taking into account the changes and developments in the organization. The principles for making delegation arrangements and the authorization procedures for administrative arrangements for the execution of the delegated functions have been approved by the Management Board.

### Internal Audit and Management Reviews

The MPFA conducts internal audits and management reviews of its organization structure, functions and processes to enhance efficiency and effectiveness, to ensure sufficient segregation of roles and responsibilities, and to consider whether standard procedures are followed and whether there are adequate internal control measures in the processes. Improvement measures identified in internal audits and management reviews are reported to and regularly monitored by senior management as to whether they have been fully implemented.

During the year, the internal audit policies and procedures were reviewed, strengthening the monitoring of the internal audit programme. Five internal audit exercises and twelve management reviews were conducted, covering complaint investigation practices and procedures, default contribution handling, information technology (IT) project management, IT security, records disposal, organization structure and resources for the Supervision Division, External Affairs Division, Corporate Affairs Department and Information Technology Department, as well as business process reengineering. In October 2005, the Audit Committee was established to oversee the internal and external audit functions.



## INDEPENDENT CHECKS AND BALANCES

### Reviews

To ensure fairness in operational procedures, the MPFA has invited external reviews of its operations from time to time. Over the years, the policies and procedures of individual departments had been reviewed by the Independent Commission Against Corruption (ICAC) to ensure that the control measures are adequate from the ICAC's point of view. Consultants had also been engaged to review the information technology and financial control policies of the MPFA. During the year, international consultants assisted in reviewing the MPFA's operational procedures and policies, including the approach to supervising approved MPF trustees, and the reserving requirements for guaranteed funds. An advisor also reviewed the supervision of guaranteed funds and issues relating to the supervision of trustees affiliated with insurance companies.

The financial statements of the MPFA are subject to audit by an external auditor. During the auditing process, the auditor would also provide management comments as appropriate. Pursuant to section 60 of the MPFSO and as approved by the Financial Secretary, the MPFA appointed Deloitte Touche Tohmatsu as auditor for the financial years 2004-05 to 2006-07.

### Appeal Boards

The **Mandatory Provident Fund Schemes Appeal Board** was established pursuant to section 35 of the MPFSO to hear appeals against any decision specified in Schedule 6 of the MPFSO. The **Occupational Retirement Schemes Appeal Board** was established pursuant to section 61 of the ORSO to hear appeals against the ORSO Registrar's decisions as specified in the ORSO. No appeal was lodged with either appeal boards during the year.

