

Statement by the Audit Commission

Preamble

The following statement is issued in response to public concerns over Chapter 7 “RTHK: financial control and resource management” and Chapter 8 “RTHK: governance and strategic management” of Report No. 46 of the Director of Audit.

Background of the audit

During the years 2002 to 2004, Audit noted some media reports on fraud cases involving RTHK employees. Since then, Audit closely monitored the development of these fraud cases. In March 2005, an employee of RTHK was convicted of fraud in relation to the awarding of RTHK contracts. The court judgement on this fraud case indicated potential problems of mismanagement in RTHK. In response to public concerns over the matter, and to help RTHK reduce the risks of recurrence of such cases, Audit considered it necessary to conduct a review of RTHK in July 2005. The audit was an independent review conducted in accordance with the Value for Money Audit Guidelines.

RTHK as a government department and a public service broadcaster

As always, in conducting a review of any audited entity, Audit takes into account the special nature of the entity’s business and the environment in which it is operating. In the case of RTHK, Audit fully recognises the fact that RTHK is a government department that serves the role of a public service broadcaster. Audit has also taken due consideration of the policies, rules and procedures under which RTHK is operating.

Irregularities identified by Audit

The audit revealed various irregularities in a number of major areas in RTHK. Whilst the amounts involved in individual cases identified by Audit may not be very large, these irregularities are a cause for concern, taking into account their nature, prevalence, and the risks that they posed to the proper use of public funds.

Nature of irregularities. RTHK’s activities are paid for by public funds and, as such, the public has high expectations of probity in the use of its resources. As a government department, RTHK should strictly follow all government policies, regulations, guidelines and procedures, unless specific exemptions are obtained from the relevant authorities. Irrespective of the amounts involved, as a matter of principle, non-compliance is undesirable. As can be seen in Chapter 7 and Chapter 8 on RTHK, the irregularities identified mainly related to non-compliance with government policies, regulations, guidelines and procedures.

Incidence of irregularities. Many of these cases of non-compliance in RTHK were not isolated cases. The past internal and external reviews of RTHK, as well as this audit review, have shown that such non-compliance is prevalent. Chapter 7 shows examples of non-compliance in many different areas in RTHK.

Financial materiality. The nature and prevalence of the identified irregularities pose risks to the proper use of public funds in RTHK. The amount of public funds exposed to such risks is considerable. For example, RTHK spent some \$50 million a year on payments to departmental contract staff and service providers, \$52 million a year on payments under the Technical Services Agreement, and \$198 million a year on production of TV programmes.

The way forward

As the audit review shows that there is a problem of compliance culture among RTHK staff with applicable policies, regulations, guidelines and procedures, Audit is duty-bound to point this out and suggest a way forward to tackle it. As pointed out in paragraph 2.26 of Chapter 8, Audit has recommended that the Director of Broadcasting should continue to foster a corporate culture of compliance with all applicable policies, regulations, guidelines and procedures in RTHK. The Director of Broadcasting agrees with the audit recommendation. Audit is pleased to note that RTHK has set up a high-level internal audit team to closely monitor the effectiveness of internal control measures and make recommendations to continue to foster a corporate culture of compliance.

8 May 2006
Audit Commission