



審計署
香港灣仔
告士打道七號
入境事務大樓
二十六樓

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

圖文傳真 Facsimile : 2583 9063

電話 Telephone : 2829 4251

本署檔號 Our Ref.: UB/BAR/PAC/46

來函檔號 Your Ref.: CB(3)/PAC/R46

24 May 2006

Ms Miranda HON
Clerk
Public Accounts Committee
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road
Central, Hong Kong

[Fax No. 2537 1204]

Dear Ms Hon,

**The Director of Audit's Report on the
results of value for money audits (Report No. 46)**

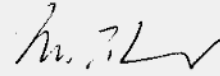
Chapter 7 — RTHK: financial control and resource management

Thank you for your letter of 20 May 2006. I refer to item (d) of your letter requesting a list of issues covered in previous reviews by Audit which have not been rectified by RTHK.

I provide at the Annex a summary of such issues raised in Chapters 7 and 8 of the Director of Audit's Report No. 46, which have not been fully addressed by RTHK despite previous reviews by Audit. You may wish to note that some progress has been made by RTHK in rectifying the irregularities but more needs to be done.

My response to items (a) to (c) of your letter will be provided to you separately. A Chinese translation of this letter will be forwarded to you shortly.

Yours sincerely,



(David M T LEUNG)
for Director of Audit

c.c. Secretary for Commerce, Industry and Technology (Fax: 2537 3210)
Permanent Secretary for Commerce, Industry and Technology
(Communications and Technology) (Fax: 2588 1421)
Director of Broadcasting (Fax: 2337 2403)
Secretary for Financial Services and the Treasury
(Attn.: Miss Amy TSE) (Fax: 2596 0729)

<p style="text-align: center;">Issues which were covered in previous reviews by Audit</p>	<p style="text-align: center;">Irregularities identified in current audit</p>
<p>CHAPTER 7 - RTHK: FINANCIAL CONTROL AND RESOURCE MANAGEMENT</p> <p>Part 2: Management of departmental contract staff (DCS) and service providers</p> <p><i>Efforts to rationalise the DCS structure</i></p> <p>As mentioned in paragraphs 2.40 to 2.43, in February 1997 Audit reported that RTHK employed a large number of DCS I and Category II service providers for prolonged periods of time (see para. 4.10 of Chapter 4 of the Director of Audit's Report No. 28). In November 1997, RTHK stated that it would adopt a phased approach to reduce the number of long serving DCS I and would regularise the employment of DCS III by appointing them on non-civil service contract terms.</p>	<p>Audit considers that the DCS structure should have largely been rationalised by 2006. Audit notes that the number of DCS I was indeed reduced from 120 as at April 1998 to 18 as at January 2006. However, because RTHK has continued to employ DCS III, the number of DCS III remained high, increasing from 120 as at January 1998 to 148 as at January 2006 (see para. 2.46 of Audit Report).</p>

<p style="text-align: center;">Issues which were covered in previous reviews by Audit</p>	<p style="text-align: center;">Irregularities identified in current audit</p>
<p>Part 4: Management of overtime (OT) work</p> <p><i>OT work performed under the Technical Services Agreement (TSA)</i></p> <p>As mentioned in paragraph 4.7, in March 1999, Audit conducted a review of the management of TSA services by government departments and the cost-effectiveness of the Government's spending under the TSA (see Chapter 7 of the Director of Audit's Report No. 32). Regarding OT work of the TSA staff in RTHK, Audit highlighted an urgent need for RTHK to minimise OT payments, and recommended that RTHK should:</p> <ul style="list-style-type: none"> (a) ascertain whether there was a genuine need for TSA staff to work OT; (b) find ways (e.g. by a staff rotation schedule) of ceasing the practice of setting Sundays as rest days for the TSA staff; and (c) examine whether there was scope for re-scheduling the working hours of the TSA staff to match with the work requirement in order to reduce OT work to the minimum. <p><i>OT work performed by RTHK staff</i></p> <p>In October 2001, Audit conducted a review of RTHK's performance and resource management (see Chapter 8 of the Director of Audit's Report No. 37). Regarding management of OT work, Audit identified scope for improvement in the following areas (see para. 5.5 of the 2001 Audit Report):</p> <ul style="list-style-type: none"> (a) the need to use time-off as the normal recompense for OT work (see paras. 5.6 to 5.9 of the 2001 Audit Report); 	<p>Although RTHK has, since the 1999 audit, taken various measures to reduce OT payments under the TSA, Audit's recent review has found that there is scope for RTHK to further reduce OT payments (see para. 4.8). In particular, Audit has found that there is a need for RTHK to:</p> <ul style="list-style-type: none"> (a) ensure that OT work is strictly unavoidable and kept to a minimum (see paras. 4.15 to 4.18); (b) re-schedule rest days of TSA staff to better match with work requirements (see paras. 4.19 and 4.20); and (c) improve work scheduling to better utilise the TSA manpower resources (see para. 4.21). <p>While recognising RTHK's efforts in reducing expenditure on OT allowances, Audit's recent review has identified areas that require RTHK's attention and further action (see para. 4.26), including:</p> <ul style="list-style-type: none"> (a) certification of journey details in vehicle logbooks (see paras. 4.29 to 4.33);

<p style="text-align: center;">Issues which were covered in previous reviews by Audit</p>	<p style="text-align: center;">Irregularities identified in current audit</p>
<p>(b) the need to accurately report the times film crews return to RTHK after performing outdoor duties (see paras. 5.10 to 5.16 of the 2001 Audit Report); and</p> <p>(c) the need to ensure compliance with Civil Service Regulation (CSR) 667 (see paras. 5.17 to 5.19 of the 2001 Audit Report).</p>	<p>(b) OT work of drivers during meal breaks (see paras. 4.34 to 4.38);</p> <p>(c) OT work of drivers for buying newspapers (see paras. 4.39 to 4.41); and</p> <p>(d) Checking of OT work registers (see paras 4.45 and 4.46).</p>
<p>Part 5: Stores and procurement matters</p> <p><i>Procurement of goods and services</i></p> <p>Regarding procurement of services, the 2001 audit of RTHK's performance and resource management found that (see para. 4.4 of the 2001 Audit Report):</p> <p>(a) following a study by the Corruption Prevention Department of the Independent Commission Against Corruption, RTHK had been implementing various improvement measures to strengthen its procurement procedures (see paras. 4.5 to 4.7 of the 2001 Audit Report); and</p> <p>(b) there is further scope for improvement in RTHK's procedures for hiring film crews, which included:</p> <p>(i) non-compliance with the requirement of obtaining written quotations (see paras 4.11 to 4.13 of the 2001 Audit Report);</p> <p>(ii) checking of availability of suppliers (see paras 4.14 and 4.15 of the 2001 Audit Report); and</p> <p>(iii) jobs not awarded to the suppliers with the lowest charges (see paras 4.16 to 4.20 of the 2001 Audit Report).</p>	<p>As mentioned in paragraph 5.5, the Government Logistics Department (GLD)'s system survey report of August 2005 revealed various irregularities in RTHK's supplies functions. The weaknesses highlighted by the GLD mainly related to RTHK's procurement of goods and services (see para. 5.6(a) to (f) for details).</p>

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<p>CHAPTER 8 - RTHK: GOVERNANCE AND STRATEGIC MANAGEMENT</p> <p>Part 3: Strategic planning and performance management</p> <p><i>Need for a sound budgetary control mechanism</i></p> <p>As mentioned in paragraph 3.16, in October 2001, Audit reviewed the performance and resource management of RTHK and identified areas for improvement in its budgetary control system. These included the need to keep formal records of budget revisions and the need to input revised budget data into the costing system for budgetary control purposes (see PART 3 of the 2001 Audit Report for details).</p> <p><i>Need for a systematic performance measurement and reporting system</i></p> <p>As mentioned in paragraph 3.25, the 2001 audit of the performance and resource management of RTHK revealed inadequacies in RTHK's performance measurement and reporting. Audit recommended that RTHK should devise suitable performance indicators for reporting in the Controlling Officer's Report (COR) its achievements and how it was fulfilling the role of a public service broadcaster (PSB). In response to Audit's recommendations, RTHK included</p>	<p>As mentioned in paragraph 3.17, in March 2005, the System Review Unit (SRU) of RTHK completed a system review on resource management, including a review of the effectiveness of the remedial measures taken in response to Audit's findings in 2001. Among other observations, the SRU noted that, based on its analysis of budget variances in 2003-04, no improvement was observed in the control of budget variances.</p> <p>Audit's recent review of the budget variances of TV programmes in 2004-05 and 2005-06 (up to November 2005) has found that the budget variances are still significant and there is scope for further improvement (see paras. 3.19 to 3.23 for details).</p> <p>Audit's recent review has found that there is still room for improvement in a number of areas, including:</p> <p>(a) assessing RTHK's success in fulfilling its role as a PSB (see paras. 3.26 and 3.27);</p>

<p style="text-align: center;">Issues which were covered in previous reviews by Audit</p>	<p style="text-align: center;">Irregularities identified in current audit</p>
<p>various key performance indicators in its COR. Audit also recommended that RTHK should accord priorities to international benchmarking, in order to seek productivity improvement (see para. 2.17 of the 2001 Audit Report).</p>	<p>(b) international benchmarking (see para. 3.28); and</p> <p>(c) evaluation of TV programmes (see paras. 3.29 to 3.34).</p>