

Report No. 46 of the Director of Audit — Chapter 7

RTHK: FINANCIAL CONTROL AND RESOURCE MANAGEMENT

Summary

1. Radio Television Hong Kong (RTHK) is a government department that serves the role of a public service broadcaster. Its aim is to inform, educate and entertain the general public and specific target audiences through a balanced mix of high quality programming. RTHK is editorially independent to ensure provision of fair, balanced and objective news and public affairs programmes. Four key programmes of activity are undertaken by RTHK, namely: (a) Radio; (b) Public Affairs Television; (c) School Educational Television Production; and (d) New Media. RTHK is funded by the Government. In 2005-06, the estimated expenditure of RTHK was \$428 million.

2. *Recent reviews of RTHK's systems and procedures.* In the past few years, three Independent Commission Against Corruption (ICAC) cases, in which RTHK officers were convicted of fraud/misconduct, had aroused public concerns about possible malpractices in RTHK. In response to these cases, internal and external reviews were conducted which revealed weaknesses in different aspects of RTHK's management systems, particularly contract staff management, and procurement of goods and services.

3. *Audit review.* The Audit Commission (Audit) has recently conducted a value for money audit of RTHK. The audit findings are in two separate reports, namely: (a) RTHK: financial control and resource management (the subject matter of this report); and (b) RTHK: governance and strategic management (see Chapter 8 of the Director of Audit's Report No. 46).

Management of departmental contract staff and service providers

4. RTHK's formal disciplinary cases, and the findings of various internal and external reviews on RTHK have revealed room for improvement in its management of departmental contract staff (DCS) and service providers. Audit's recent review has identified scope for further improvement in:

- (a) ***Fee scale table.*** A fee scale table was developed in 2002, setting out a framework for RTHK staff to follow in determining the fees to be offered to DCS and service providers. Audit sees the need for RTHK to improve the fee scale table by addressing various issues relating to benchmarking, and to develop guidelines to help its staff systematically assess the attributes of the DCS and service providers for applying the different tiers in the fee scale table;
 - (b) ***Maintenance of attendance records.*** Audit's examination of sample payments made in 2004-05 to DCS and service providers has identified various irregularities in the keeping of attendance records; and
 - (c) ***Practice of seeking covering approval.*** Audit's review has identified RTHK's frequent practice in 2004-05 of seeking covering approval for overtime (OT) work and additional work. In addition, there were cases where employment contracts were signed after work had commenced.
5. *Audit has recommended that the Director of Broadcasting should: (a) develop an action plan to take forward steps to improve the fee scale table; (b) develop guidelines to help RTHK staff systematically assess the attributes of DCS and service providers for applying the different tiers in the fee scale table; (c) take action to ensure that the controls over attendance records are strictly enforced; and (d) discourage the practice of seeking covering approval, and request RTHK staff to submit explanations if prior approval has not been sought.*

Management of outsourcing activities

6. RTHK has a long tradition of outsourcing. In particular, RTHK's engineering and technical services have been outsourced to Company A under the Technical Services Agreement (TSA) for many years. Audit examined RTHK's management of its outsourcing activities and has identified scope for improvement in:

- (a) ***Management of outsourcing of outside broadcast (OB) services.*** Since 2000, RTHK has been contracting out part of the radio/TV OB services previously provided under the TSA. Audit's review revealed some cases of non-compliance with the terms of OB contracts (awarded to Company B, a related company of Company A). Audit also found that there was no documentary evidence to show that RTHK had formally considered the question of potential conflict of interest of these two companies before awarding the OB contracts; and
- (b) ***Reducing the outsourcing of OB work through better use of the TSA.*** The main justification for RTHK to outsource the OB services was cost

considerations. Audit's review has found that the justification on cost considerations may no longer be valid. Audit has also found that there is scope for making better use of the TSA staff because they have significant standby time. Audit considers that some of these TSA staff may be deployed to perform OB work.

7. *Audit has recommended that the Director of Broadcasting should: (a) closely monitor the provision of OB services in order to ensure that the contractor fully complies with the terms of the contract; (b) take necessary actions to address the question of potential conflict of interest in the OB contracts, or other similar contracts in future; and (c) review whether it is possible to make better use of TSA staff through more effective production scheduling, thereby reducing outsourcing work.*

Management of overtime work

8. ***Overtime work performed under the TSA.*** In March 1999, Audit conducted a review of the management of TSA services, revealing that there was room for improvement in a number of areas, including the control of OT payment under the TSA. In 2004-05, total OT payments under the TSA in RTHK amounted to \$4.6 million. While recognising RTHK's efforts in reducing OT payments under the TSA since 1999, Audit's recent review has found that there is scope for RTHK to further reduce OT payments by: (a) ensuring that OT work is strictly unavoidable; (b) re-scheduling rest days of TSA staff to better match with work requirements; and (c) improving work scheduling to better utilise the TSA manpower resources.

9. *Audit has recommended that the Director of Broadcasting should: (a) urge Company A to grant time-off to TSA staff as the normal recompense for OT work as far as possible; (b) ensure that OT work under the TSA is undertaken only when it is strictly unavoidable; and (c) urge Company A to consider re-scheduling the rest days on Sundays of TSA staff to better match with the work requirements.*

10. ***OT work performed by RTHK staff.*** Of the \$1.1 million OT allowance (OTA) paid to RTHK staff in 2004-05, \$0.7 million (64%) was paid to the drivers of RTHK. Audit's review revealed cases in which: (a) the journey details recorded in the vehicle logbooks had not been certified by the vehicle users concerned; and (b) there was no documentation of justifications for the drivers to perform OT work during normal meal break time. Audit also found that the OT work of drivers for buying newspapers could be avoided.

11. *Audit has recommended that the Director of Broadcasting should: (a) remind all users of RTHK departmental vehicles to check and certify the details of journeys recorded in vehicle logbooks; (b) investigate into the cases identified in this audit review and take necessary follow-up actions; and (c) review whether it is cost-effective to ask drivers to work OT to buy newspapers early in the morning, and explore the option of using newspaper delivery service to meet RTHK's needs.*

Stores and procurement matters

12. ***Procurement of goods and services.** A recent ICAC case involving an RTHK officer revealed weaknesses in management control over procurement matters in RTHK. The Government Logistics Department (GLD) completed a system survey on RTHK in August 2005, revealing various irregularities in RTHK's supplies functions. Audit is concerned that the major drawbacks of the procurement system revealed by the GLD's system survey related to non-compliance with the Stores and Procurement Regulations (SPRs) and relevant guidelines on procurement. Audit has recommended that the Director of Broadcasting should implement the recommendations of the GLD's system survey report as soon as possible.*

13. ***Management of stores and inventory.** Audit's examination of RTHK's management of stores and inventory has revealed cases of non-compliance with the SPRs and other relevant guidelines in respect of inventories: (a) kept by user sections; (b) kept by specialised stores; and (c) issued on long-term loan. Audit has also found that there is room for improvement in planning for the handover of TSA inventories by 30 September 2006.*

14. *Audit has recommended that the Director of Broadcasting should: (a) remind all staff concerned to strictly comply with the SPR requirement that they should check inventories under their control at least once a year; (b) ensure that stock verification of the specialised stores is performed progressively in a three-year cycle; (c) ensure that the regulations and guidelines governing store items on long-term loan are always complied with; (d) closely monitor the progress of the stocktaking of TSA inventories and ensure that the handover timetable is strictly adhered to; and (e) work out an acceptable basis for assessing the indemnity for loss of TSA inventories as early as possible.*

Entertainment expenses

15. In 2004-05, RTHK's total expenditure on entertainment amounted to \$750,000, comprising official entertainment (\$390,000), and programme-related entertainment (\$360,000). Audit scrutinised the claims for reimbursement of entertainment expenses in 2004-05 and found that there were cases of non-compliance with the relevant government

regulations and guidelines, including: (a) cases without prior approval; (b) cases exceeding spending limits according to the Director of Administration's guidelines; (c) lack of documentation of the full justifications for organising six spring receptions in 2004-05; (d) entertainment for programme liaison with paid artists or prospective paid artists; and (e) entertainment involving only government staff.

16. *Audit has recommended that the Director of Broadcasting should: (a) remind all RTHK staff of the need to strictly follow the relevant procedures and guidelines for reimbursement of entertainment expenses, including obtaining prior approval from the proper authority, and ensuring that they spend within the approved cost-per-head spending limits; (b) critically assess the need for RTHK to organise spring or annual receptions; (c) discuss with the Financial Services and the Treasury Bureau with a view to devising clear guidelines on the reimbursement of entertainment expenses for programme liaison; and (d) invite the attention of all staff to the general rule that expenses of entertainment functions attended only by government staff should not be charged to public funds.*

Management of sponsorship

17. With effect from 1 April 1997, RTHK has been forbidden to accept sponsorships from commercial organisations for its programmes. RTHK can, however, accept sponsorship monies from non-profit-making organisations and government agencies/departments. Details of this policy were set out in guidelines issued by the Commerce, Industry and Technology Bureau (CITB). In 2004-05, the total receipts from government bureaux/departments and non-profit-making organisations in the form of sponsorship for programme production amounted to \$47.2 million. The total expenditure incurred on these sponsored programmes in 2004-05 was \$41.2 million.

18. *Sponsorships in kind.* Audit's review has found that it is a common practice for individual RTHK producers or staff members involved in programme production to accept sponsorships in kind from commercial organisations for programme production or as gifts to audience. Examples noted by Audit include programmes containing acknowledgements/credit mentions given to commercial organisations in respect of free services provided to RTHK, costume sponsorships, and free passage for RTHK programme production staff. Audit has also found that RTHK's internal guidelines are not fully consistent with the principles and rules set out in the CITB policy guidelines, which permit RTHK to accept sponsorship from non-profit-making organisations only.

19. *Audit has recommended that the Director of Broadcasting should: (a) seek guidance from the CITB on whether RTHK should be permitted to accept and acknowledge the contribution of prizes and other forms of sponsorship from commercial organisations;*

(b) tighten the control on sponsorships in kind by centralising the acceptance of permitted sponsorships in kind; and (c) promulgate, in consultation with the CITB, more detailed guidelines on the handling of various categories of sponsorships in kind in the RTHK Producers' Guidelines.

Response from the Administration

20. The Director of Broadcasting generally agrees with the audit recommendations. He has said that RTHK's management has always taken the issue of enforcement and monitoring very seriously and, in this regard, there have been improvements in RTHK.

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