

Report No. 46 of the Director of Audit — Chapter 8

RTHK: GOVERNANCE AND STRATEGIC MANAGEMENT

Summary

1. Radio Television Hong Kong (RTHK) is a government department that serves the role of a public service broadcaster (PSB). 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 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 (see Chapter 7 of the Director of Audit's Report No. 46); and (b) RTHK: governance and strategic management (the subject matter of this report).

Compliance culture and internal control

4. *Observations on non-compliance in RTHK.* Audit notes that RTHK's formal disciplinary cases, the findings of various internal and external reviews on RTHK, and the observations in Chapter 7 of the Director of Audit's Report No. 46 have highlighted a problem of compliance culture among RTHK staff with applicable regulations, guidelines

and procedures. Audit considers that there is room for further improvement in RTHK's internal control.

5. ***Need to enhance internal control.*** Audit has identified a number of major control risks that RTHK needs to address as a matter of priority, in order to strengthen its financial controls and safeguard against irregularities. These risk factors include: (a) nature of the media environment; (b) complex staffing structure; (c) need to implement internal control measures on a timely basis; and (d) effectiveness of monitoring. In Audit's view, the prevalence of irregularities in any government departments is not conducive to strong public governance.

6. *Audit has recommended that the Director of Broadcasting should continue to critically review whether the existing internal controls within RTHK are adequate, based on a rigorous assessment of its major control risks, taking into account: (a) the observations and recommendations of internal and external reviews on various aspects of RTHK's management; and (b) the audit observations and recommendations in this review, particularly the control risk factors identified.*

7. ***Need to foster a compliance culture.*** RTHK's activities are paid for by public funds and, as such, taxpayers quite rightly will have strong expectations of probity. The various compliance problems in RTHK have highlighted the need to improve governance by fostering a compliance culture in RTHK. *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 by, among other things: (a) communicating and demonstrating a set of core values and codes of conduct to all levels of staff; and (b) addressing good governance as a priority issue under RTHK's strategic planning and performance management framework.*

Strategic planning and performance management

8. ***Need for a formal strategic planning framework.*** As part of the consultancy commissioned by RTHK in 2002, a strategic plan study was conducted. Following this strategic plan study, RTHK prepared its first Annual Plan, setting out the major directions and the more detailed programme planning for 2004-05. However, Audit noted that: (a) RTHK did not formally consult the Commerce, Industry and Technology Bureau (CITB) and seek its comments and input (on a draft Annual Plan), before drawing up the 2004-05 Annual Plan; (b) there was no formal evaluation of the implementation of targets set out in the 2004-05 Annual Plan; and (c) an Annual Plan for 2005-06 had not been prepared. In the absence of a formal strategic plan/business plan framework to underpin resources management, an effective mechanism for aligning individual radio/TV programmes with RTHK's strategic goals and objectives is lacking.

9. *Audit has recommended that the Director of Broadcasting should put in place a formal strategic planning framework as a basis for effective resource management. In this regard, RTHK should consider: (a) consulting its key stakeholders (including the CITB) when drawing up its annual plans, taking into account their input; (b) promulgating its annual plans by uploading them to the RTHK website to enhance transparency and public accountability; and (c) monitoring closely the implementation of its annual plan targets and conducting a formal evaluation of the achievement of these targets.*

10. ***Need for a sound budgetary control mechanism.*** In October 2001, Audit reviewed the performance and resource management of RTHK and identified areas for improvement in its budgetary control system. In March 2005, the System Review Unit (SRU) of RTHK completed a review on resource management, including 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. Audit's review of the budget variances of TV programmes in 2004-05 and 2005-06 (up to November 2005) has shown that although the position of budget variances in 2005-06 has improved, the budget variances are still significant. *Audit has recommended that the Director of Broadcasting should: (a) implement the SRU's recommendations to improve RTHK's budgetary control system as soon as possible; (b) remind all staff of the need to strictly comply with the departmental budgetary control procedures; and (c) incorporate an element of budgetary control into the staff appraisal system, and make those who repeatedly exceed the budgets without prior approval accountable for budget overrun.*

11. ***Need for a systematic performance measurement and reporting system.*** Audit's review on the performance and resource management of RTHK in October 2001 had revealed inadequacies in RTHK's performance measurement and reporting. In this review, Audit has found that there is still room for improvement in a number of areas, including: (a) in the absence of a strategic plan (as a basis for systematic performance measurement and reporting), it is difficult for RTHK to demonstrate to all stakeholders its success in achieving its strategic goals, particularly in fulfilling the role as a PSB; (b) in the absence of benchmarking information, it is difficult for stakeholders to assess RTHK's performance in isolation; and (c) RTHK's TV programmes with either low appreciation index or low awareness level, or both, are a cause for concern because it is not known whether these programmes have reached the target number of audience.

12. *Audit has recommended that the Director of Broadcasting should: (a) devise suitable performance measures for reporting to key stakeholders its success in achieving its strategic goals, particularly in fulfilling RTHK's role as a PSB in Hong Kong; (b) conduct systematic benchmarking of RTHK's key performance indicators against those of overseas PSBs and report the results to key stakeholders; (c) critically evaluate the quality and effectiveness of its programmes, particularly those with low appreciation index and*

awareness level; and (d) consider setting targets/benchmarks in the strategic planning process for RTHK's programmes, in terms of both programme quality and the target number of audience, in order to facilitate more meaningful evaluation of the success of RTHK programmes.

Response from the Administration

13. 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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