

SECTION 5: THE CORPORATION'S EXTERNAL AUDITOR, RISK MANAGEMENT AND INTERNAL CONTROLS

POLICY

501 The Corporation's activities are subject to two levels of audit control. The first arises as a consequence of Section 14B of the KCRC Ordinance, whereby the Chief Executive of the HKSAR appoints the auditor (the External Auditor) for the Corporation to audit the Corporation's annual accounts after consultation with the Corporation. The Audit Committee is responsible for detailed oversight of the work of the External Auditor.

502 The second level involves monitoring and assessing the adequacy of the Corporation's own internal controls. This is the responsibility of both management and the Internal Auditor acting independently.

503 –510 (nor used)

EXTERNAL AUDITOR

511 Although the Chief Executive of the HKSAR appoints the External Auditor to audit the Corporation's annual accounts, the Audit Committee of the Corporation must pre-approve any other audit and non-audit services performed by the External Auditor in order to assure that they do not impair the auditor's independence from the Corporation.

512 The External Auditor works closely with the Audit Committee in undertaking his duties. The External Auditor reports to the Managing Board through the Audit Committee. He is given the opportunity at every Audit Committee meeting to request an "in camera" session with only the members of the Committee present, so that he can raise matters of a sensitive nature where it might be inappropriate for any representatives of the executive management to be present.

513 – 520 (not used)

RISK MANAGEMENT

521 The Corporation has established an Enterprise Risk Management (ERM) framework for the strategic management of business risks. The framework covers four main areas –

- (a) risk identification;
- (b) risk evaluation;
- (c) risk mitigation; and
- (d) risk monitoring and reporting.

522 For each of the risks identified, the Chief Officer is responsible for evaluating the risk from two perspectives, namely, the likelihood of the risk occurring and the severity of the consequences if the risk were to occur. The Corporation adopts a five-level likelihood of the risk occurring (i.e. very unlikely, unlikely, possible, likely, very likely) and a four-level consequence (i.e. significant, major, critical, catastrophic). One of four levels of risk rating is then derived for each individual risk item based on the degree of likelihood and severity of the consequence (i.e. low, medium, high, very high). An ERM register of risks is drawn up using this methodology. The risk register is reviewed annually and a report made to the Audit Committee, which will then decide whether there are matters that should be brought to the attention of the Managing Board.

523 To mitigate each of the identified risks, especially those involving a higher level of risk, the Chief Officer is responsible for proposing and implementing appropriate mitigation measures under the overall direction of the Managing Board via the Audit Committee.

524 – 530 (not used)

INTERNAL CONTROL

531 The Managing Board is ultimately responsible for ensuring the adequacy of the internal controls of the Corporation and its subsidiaries, and for setting appropriate policies in respect of managing risk and monitoring the effectiveness of the necessary controls.

532. The Chief Officer, supported by a working group comprising senior management, is delegated the day-to-day responsibility of implementing and managing the system of internal controls, and for satisfying the Managing Board as to the adequacy of those controls. The Chief Officer must identify and evaluate the risks faced by the Corporation and propose a suitable system of internal controls and the mechanism for monitoring those controls via the Audit Committee to the Managing Board for its approval.

533 The Internal Auditor plays a major role, independent of management, in assessing and monitoring the internal controls of the Corporation. The Internal Auditor is responsible for evaluating the adequacy, cost-effectiveness and efficiency of the Corporation's internal control systems and procedures and for determining whether there is proper compliance with the Corporation's policies, rules and procedures.

534 Under the Outsourcing Agreement with the MTR Corporation, the MTR Corporation's Internal Auditor also provides the same service to the KCRC. In relation to the internal audit service rendered under the Outsourcing Agreement, the Internal Auditor reports directly to the Audit Committee of the Managing Board of the KCRC.

535 Audits are selected based on risk assessment to ensure that business activities with the highest risk are covered.

536 The Internal Auditor's staff perform independent audits of the Corporation's activities but have no involvement in day to day operations.

537 In performing their audits, staff of the Internal Auditor have full access to all of the Corporation's employees, records and property.

538 At the start of an audit, a notification is sent by the Internal Auditor to the individual responsible for the activities to be audited.

539 Upon completion of an audit, an audit report is issued to the individual responsible for the audited activities and copied to the Chief Officer and the External Auditor. Significant audit issues and the follow up results are also reported to the Audit Committee.

540 The Internal Auditor submits a half-yearly report to the Audit Committee on significant audit issues and implementation status of audit recommendations that fall due.

541 - 600 (not used)