

## **CHAPTER 7**

**Commerce and Economic Development Bureau  
Customs and Excise Department  
Census and Statistics Department**

**Processing and control of  
trade declarations and cargo manifests**

**Audit Commission  
Hong Kong  
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*This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.*

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# **PROCESSING AND CONTROL OF TRADE DECLARATIONS AND CARGO MANIFESTS**

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## PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

### Background

1.2 Under the Import and Export Ordinance (Cap. 60), all cargoes imported into or exported out of Hong Kong shall be recorded in a manifest (**cargo manifest**). Cargo carriers are required to lodge with the Commissioner of Customs and Excise cargo manifests within 14 days after the arrival or departure of the cargoes. Under the Import and Export (Registration) Regulations (Cap. 60 sub. leg. E), every person who imports or exports any article other than an exempted article (Note 1) is required to lodge with the Commissioner of Customs and Excise an accurate and complete declaration (**trade declaration**) within 14 days after the importation or exportation of the article.

1.3 The Census and Statistics Department (C&SD) is responsible for producing and analysing trade statistics in Hong Kong based on information on trade declarations and cargo manifests. In accordance with section 4 of the Import and Export Ordinance, the Commissioner of Customs and Excise has authorised the officers of the C&SD to process **trade declarations submitted by traders and cargo manifests submitted by carriers**.

1.4 A declaration charge is payable upon the lodgement of a trade declaration at the following rates:

- (a) **Import of food items.** \$0.5 per trade declaration irrespective of the value; and
- (b) **Import, export or re-export of other goods.** \$0.5 in respect of the first \$46,000 of the value of goods, and \$0.25 in respect of each additional \$1,000 or part thereof.

The purposes of processing trade declarations and cargo manifests are to safeguard the Government's revenue from declaration charges, and produce and analyse trade statistics.

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**Note 1:** *Under regulation 3 of the Import and Export (Registration) Regulations, exempted articles include transshipment cargo, transit cargo, articles imported or exported by the Government or the armed forces, personal baggage including any article which is imported or exported otherwise than for trade or business, any postal packet valued at less than \$4,000, any article valued at less than \$1,000, which consists solely of a sample of any product, and any article imported solely for the purpose of exhibition.*

In 2007-08, the total amount of declaration charges was \$1,279 million. Cargoes are imported into or exported out of Hong Kong by various modes of transport. The number and value of trade declarations lodged in 2007 by mode of transport are shown in Table 1.

**Table 1**  
**Number and value of trade declarations lodged**  
**(2007)**

Mode of transport	Trade declarations		Declared trade value	
	(Number)	(Percentage)	(\$ million)	(Percentage)
Air	8,974,257	45 %	1,945,728	35 %
Ocean	4,613,621	23 %	1,502,425	27 %
River	500,024	3 %	212,489	4 %
Rail	14,756	(Note 1)	7,159	(Note 1)
Road	5,457,079	28 %	1,851,960	33 %
Others (Note 2)	240,988	1 %	35,763	1 %
<b>Total</b>	<b><u>19,800,725</u></b>	<b><u>100%</u></b>	<b><u>5,555,524</u></b>	<b><u>100%</u></b>

*Source: C&SD records*

*Note 1: The percentages of trade declarations and declared trade value for the rail mode were both less than 0.2%.*

*Note 2: Others referred to trade declarations regarding goods carried by hand or delivered through the Post Office.*



1.5 In order to improve the facilitation of international trade for the Hong Kong trading community, the Government commissioned a study in 1990 to investigate the potential of introducing a trade-related community **electronic data interchange (EDI)** service in Hong Kong. In December 1992, the Government signed an agreement with the then Tradelink Electronic Document Services Limited (now the Tradelink Electronic Commerce Limited — Tradelink) for the provision of Community Electronic Trading Services. Under the agreement, the Tradelink would provide EDI services for five types of trade-related documents (Note 2), including trade declarations and cargo manifests. In 2004, the Global e-Trading Services Limited became the second service provider. In April 2000, the electronic lodgement of trade declarations through EDI was made mandatory. In June 2006, the electronic lodgement of cargo manifests (except for the road mode — Note 3) through EDI was made mandatory.

1.6 The Commerce, Industry and Tourism Branch of the Commerce and Economic Development Bureau (CEDB) is responsible for formulating government policies on trade promotions, and instituting measures and arrangements to facilitate international trade. The CEDB is also responsible for overseeing the implementation of the EDI services, including the electronic lodgement of trade declarations and cargo manifests.

1.7 The Commissioner of Customs and Excise has authorised specific officers in the Economic Statistics Division (1) of the C&SD to undertake the work of processing and verifying trade declarations and cargo manifests, and the recovery of unpaid or underpaid declaration charges. The Economic Statistics Division (1) is also responsible for designing commodity classification systems and compiling trade statistics. An organisation chart (extract) of the C&SD is shown at Appendix A.

1.8 In the Customs and Excise Department (C&ED), the Trade Declaration Investigation Division (TDID) of the Trade Investigation Bureau of the Trade Controls Branch is responsible for enforcing the legislation relating to trade declarations and cargo manifests. The work of the TDID includes verifying trade declarations and assessing the values declared in the trade declarations to recover unpaid or underpaid declaration charges, and the investigation and prosecution of contraventions of the legislation relating to trade declarations and cargo manifests. An organisation chart (extract) of the C&ED is shown at Appendix B.

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**Note 2:** *The five types of trade-related documents were restrained textiles export licences, trade declarations, certificates of origin, cargo manifests and dutiable commodities permits.*

**Note 3:** *The Customs and Excise Department, in consultation with the industry stakeholders, is in the process of exploring the use of electronic trade documents to facilitate cross-boundary road cargo traffic.*

## **Audit review**

1.9 The Audit Commission (Audit) has recently conducted a review to examine the economy, efficiency and effectiveness of the electronic lodgement of trade declarations and cargo manifests, and the processing and control of trade declarations and cargo manifests by the C&SD and the C&ED. The review has focused on the following areas:

- (a) electronic lodgement of trade declarations and cargo manifests (PART 2);
- (b) completeness of trade declarations and cargo manifests (PART 3);
- (c) accuracy of trade declarations (PART 4); and
- (d) trade statistics and performance information (PART 5).

1.10 In carrying out the audit review, Audit examined the records and interviewed the staff of the CEDB, the C&ED and the C&SD. Audit has found that there are areas where improvements can be made. Audit has made a number of recommendations to address the issues.

## **General response from the Administration**

1.11 The **Secretary for Commerce and Economic Development**, the **Commissioner of Customs and Excise** and the **Commissioner for Census and Statistics** agree with all the audit recommendations.

## **Acknowledgement**

1.12 Audit would like to acknowledge with gratitude the full cooperation of the staff of the CEDB, the C&ED and the C&SD during the course of the audit review.

## **PART 2: ELECTRONIC LODGEMENT OF TRADE DECLARATIONS AND CARGO MANIFESTS**

2.1 This PART examines the electronic lodgement of trade declarations and cargo manifests, and suggests measures for improvement.

### **Electronic data interchange**

2.2 The electronic lodgement of trade declarations and cargo manifests is done through EDI. EDI is the electronic transfer of structured data using agreed message standards between computer systems. It is a business methodology of automating information flow across organisation boundaries, thereby dispensing with paper in transactions. The application of EDI to trade transactions can improve the timeliness and accuracy of data transfer because no paperwork is involved.

### **Lodgement of trade declarations and cargo manifests through electronic data interchange**

#### *Electronic lodgement of trade declarations*

2.3 In April 1993, the Finance Committee (FC) of the Legislative Council approved a commitment of \$121 million for setting up a core EDI system for the C&SD, the C&ED and the then Trade Department (now the Trade and Industry Department) to process the electronic lodgement of trade declarations and restrained textiles export licences. In March 1997, the FC approved an increase in commitment of \$153.6 million to expand and enhance the EDI system. In April 1997, the Government started to accept electronic lodgement of trade declarations through EDI. In April 2000, the electronic lodgement of trade declarations through EDI was made mandatory.

#### *Electronic lodgement of cargo manifests*

2.4 In July 1999, the FC approved a commitment of \$110 million for the implementation of the EDI system for cargo manifests (**EMAN system**) in respect of cargoes transported by rail, ocean, river and air (Note 4). In April 2003, the EMAN system commenced operation. To allow the industry to adapt to the change, the

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**Note 4:** *Given the modus operandi of road transport (i.e. the huge throughput and stringent time limit requirements of cargo clearance), it was decided that the electronic submission of the road mode cargo manifests would not be feasible at that stage.*

Government provided a transitional period whereby cargo manifests could be submitted either in paper form or by electronic means. The electronic lodgement of cargo manifests by carriers was made mandatory in the following two stages:

- (a) air and rail modes in July 2004; and
- (b) ocean and river modes in June 2006.

***Enhancement of back-end computer system for processing cargo manifests***

2.5 While the EMAN system enabled the electronic lodgement of cargo manifests, a number of back-end post-submission processes were performed manually by government departments through unconnected computer systems. Based on the findings of a business process re-engineering (BPR) study (Note 5) and a technical feasibility study (Note 6), it was proposed to enhance the EMAN system to streamline, automate and integrate the processes and systems relating to cargo clearance and manifest processing. In June 2003, the FC approved a commitment of \$62.9 million for the enhancement of the back-end computer system for processing cargo manifests. **In January 2006, the enhanced EMAN system commenced operation.**

***Envisaged benefits of the EMAN system***

2.6 The implementation of the EMAN system streamlines the existing procedures for manifest submission and eliminates duplication of work. The system facilitates the monitoring of the timely submission of cargo manifests, sorting and filing of cargo manifests, sharing of manifest information, and compiling cargo statistics. According to the FC papers of July 1999 and June 2003, the key envisaged benefits were as follows:

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**Note 5:** *The BPR study was conducted by the then Management Services Agency (now the Efficiency Unit) and completed in early 2001. Information Technology Services Department Circular No. 5/2002 issued on 4 April 2002 promulgated the embedding of the BPR studies in various stages of the system development life cycle of administrative computer systems. The BPR is the fundamental rethinking and radical redesign of business processes to improve business performance in cost, quality, service and speed.*

**Note 6:** *The technical feasibility study, conducted by a contractor of the then Information Technology Services Department, aimed at assessing the viability of the computerised solution including the definition of user requirements, cost and benefit analysis, and implications of the proposed solution.*

- (a) ***Shortening documentation processing time.*** The central database of the EMAN system would enable much quicker documentation processing time. For instance, it was estimated that the lead time for cross checking with trade declarations for ocean and river cargoes would be reduced from 75 to 16 days (Note 7). With the implementation of the enhanced EMAN system, the processing time for trade declarations would be reduced from 2.6 months to less than one month. As a result, the C&SD would be able to issue reminders (i.e. declaration notices — see para. 3.5) to traders earlier, thereby helping them reduce penalties payable and avoid the inconvenience in searching old records;
- (b) ***Cost savings.*** According to the cost and benefit analysis, the system would result in:

***EMAN system***

- (i) savings of \$4.6 million in 2001-02, and annual savings of \$15.6 million from 2002-03 onwards, comprising:
- realisable savings of \$10.1 million from a deletion of 36 posts in the three user departments; and
  - notional savings of \$5.5 million mainly in the form of improvement in efficiency, savings in accommodation for storage space of paper manifests and from deletion of posts; and

***Enhanced EMAN system***

- (ii) savings of \$21 million in 2005-06, with annual savings rising to \$23.1 million from 2007-08 onwards, comprising:
- realisable savings of \$11.3 million arising mainly from the deletion of 31 posts in the three user departments; and
  - notional savings of \$11.8 million mainly in the form of efficiency gain and avoidance of cost; and

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**Note 7:** *According to the technical feasibility study for the EMAN system, the C&SD Shipping and Cargo Statistics Section used ocean and river cargo manifests to compile the cargo statistics. After such process, when the related manifests were finally passed to the Manifest Unit for checking, it was already 75 days after the shipment date. Such a lengthy lead time was not satisfactory for the processing of trade declarations.*

- (c) ***Better detection of non-lodgement of trade declarations.*** The enhanced EMAN system could bring about an increase in revenue of \$0.8 million a year as a result of better detection of non-lodgement of trade declarations.

### ***Guidelines on Post Implementation Review***

2.7 Commerce, Industry and Technology Bureau (CITB — Note 8) Circular No. 2/2003 stipulates that user bureaux/departments should complete a Post Implementation Departmental Return (PIDR) within six months after the live-run of a computer project. The objective of the PIDR is to evaluate the results of computer projects to ensure that the Government's investment has attained its intended objectives in a timely and cost-effective way. In completing the PIDR, the bureaux/departments should make reference to the corresponding funding applications for project details, committed benefits, implementation schedule and estimated expenditure. The actual achievements should be identified and quantified as far as possible and reported in the return. They should be compared against the planned achievements and any deviations should be explained. In addition, the PIDR should indicate whether a Post Implementation Review (PIR) is recommended.

2.8 A PIR is conducted on a selective basis on the initiative of either the Office of the Government Chief Information Officer (OGCIO — Note 9) or policy bureaux. According to the OGCIO guidelines issued in March 2006, in deciding whether to initiate a PIR, particular attention should be paid to the extent to which the PIDR has indicated that:

- (a) the agreed specifications of major functions have not been met;
- (b) the BPR measures have not been fully implemented;
- (c) there has been a substantial delay or slippage in implementation;
- (d) there has been a substantial deviation from the agreed cost-benefit figures; and
- (e) savings in posts envisaged in the funding submission have not been realised.

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**Note 8:** *On 1 July 2007, the Administration merged the portfolio of the then CITB with closely related areas of the then Economic Development and Labour Bureau. In recognition of the expanded remit of the bureau, it was retitled as CEDB.*

**Note 9:** *The OGCIO was set up on 1 July 2004 through merging the then Information Technology Services Department and the information technology-related divisions of the Communications and Technology Branch of the then CITB.*

2.9 In February 2004, the then CITB (now the CEDB) submitted a completed PIDR for the EMAN system to the then Information Technology Services Department (ITSD — now the OGCIO) for evaluation. No PIR was recommended. In February 2005, the OGCIO completed the evaluation and agreed that a PIR was not required. In November 2007, the CEDB submitted a completed PIDR for the enhanced EMAN system to the OGCIO for evaluation. No PIR was recommended by the CEDB. Based on the information provided in the PIDR, the OGCIO found that project specifications were largely met, and explanations were given on deviation in benefit realisation and implementation schedule. The OGCIO supported that a PIR was not required.

## **Audit observations and recommendations**

### ***PIDR of the EMAN system***

2.10 In February 2004, the then CITB reported in the PIDR that:

- (a) the system objectives were largely achieved;
- (b) the actual expenditure was within the approved budget;
- (c) the project was delayed for 15 months mainly because additional time was required for the passage of legislative amendment and the system modification to address the carriers' concerns;
- (d) the agreed benefits were partially realised pending the full implementation of the EMAN system in June 2006; and
- (e) there was no BPR achievement because no such study was conducted.

Audit noted that the partially unrealised benefits mentioned in (d) above were subsequently realised. In January 2007, the C&SD indicated that the planned deletion of 36 posts (see para. 2.6(b)(i)) was fully achieved by 2006-07.

### ***PIDR of the enhanced EMAN system***

2.11 In November 2007, the CEDB reported in the PIDR of the **enhanced EMAN system** that:

- (a) the major functions of the system had been fully implemented;
- (b) the actual expenditure was within the approved budget;

- (c) there was no significant delay in the project implementation;
- (d) the agreed benefits (see para. 2.6(b)(ii)) were partially realised;
- (e) it was expected that staff savings would be fully realised in 2007-08 after the electronic submission of ocean and river cargo manifests became mandatory in June 2006; and
- (f) as regards the intangible benefits, there was no deviation from the planned achievements.

Audit noted that the C&SD had realised staff savings in 2007-08, and retained 10 posts (see para. 2.6(b)(ii)) to meet other operational needs by re-deployment within the C&SD.

***Need to ensure the full disclosure of all items in the PIDR***

2.12 Audit noted that, notwithstanding that a BPR study was conducted for back-end processing of sea, air and rail cargo manifests, the PIDR for the enhanced EMAN system did not mention whether the recommendations of the BPR study had been implemented.

2.13 Audit compared the average time taken by the C&SD in issuing the declaration notices in 2007 with that in 2003. Details are shown in Table 2.

**Table 2**

**Average time taken in issuing declaration notices**

<b>Mode of transport</b>	<b>2003 (Number of months)</b>	<b>2007 (Number of months)</b>
Air	3.24	3.25
Ocean	3.02	3.18
River	2.89	2.90
Rail	1.98	1.08

*Source: C&SD records*



Audit found that the envisaged benefit of shortening the time taken in issuing declaration notices arising from the reduction of the processing time for trade declarations (i.e. from 2.6 months to less than one month after implementing the enhanced EMAN system) had not been realised. **The average time taken in issuing declaration notices in respect of cargoes transported by air, ocean and river in 2007 was longer than that in 2003.** Audit noted that this issue had not been reported in the PIDR of the enhanced EMAN system.

*Need to initiate a PIR for the enhanced EMAN system*

2.14 Audit found that the CEDB did not recommend a PIR for the enhanced EMAN system notwithstanding that the envisaged benefit of reducing the processing time for trade declarations (see para. 2.13) had not been realised after implementing the enhanced EMAN system.

2.15 In September 2008, in response to audit enquiries, the CEDB informed Audit that having carefully considered the audit observation about the time taken in issuing declaration notices against the OGCIO guidelines for deciding whether to initiate a PIR, the CEDB remained of the view that a PIR should not be recommended because the resources otherwise required for pursuing a PIR would be better spent on seeking ways to further shorten the processing time for trade declarations. The CEDB views were shared by the OGCIO.

*Need to submit completed PIDRs timely*

2.16 CITB Circular No. 2/2003 stipulates that user bureaux/departments should complete a PIDR within six months after the live-run of a computer project. In 2003, the then ITSD expressed concerns over the appalling delay in the submission of the PIDR by government bureaux/departments and asked for their timely submission. In February 2004, the then CITB submitted the completed PIDR for the **EMAN system** to the ITSD, about 10 months after the live-run date in April 2003. The OGCIO guidelines of the post implementation evaluation of the administrative computer projects, issued in March 2006, stipulate that bureaux/departments should complete a PIDR within six months after the full implementation of the project for onward submission to the OGCIO. In November 2007, the CEDB submitted the completed PIDR for the **enhanced EMAN system**, about 21 months after the system became operational in January 2006. In both instances, the CEDB could not meet the stipulated requirement to submit the PIDR within six months after the full implementation of the project. **Audit considers that the CEDB needs to submit the PIDR timely in accordance with the requirement specified by the OGCIO.**

*Audit recommendations*

2.17 **Audit has recommended that the Secretary for Commerce and Economic Development and the Commissioner for Census and Statistics should:**

- (a) **ensure the full disclosure of all items in the PIDR in accordance with the OGCIO guidelines;**
- (b) **work towards the target of reducing the processing time for trade declarations to less than one month; and**
- (c) **submit completed PIDRs timely in accordance with the requirement specified by the OGCIO.**

**Response from the Administration**

2.18 The **Secretary for Commerce and Economic Development** accepts the audit recommendations. She has said that:

- (a) much of the benefits envisaged upon the implementation of the enhanced EMAN system had been realised. For example, 31 posts were deleted. The notional savings of \$10.5 million mainly in the form of efficiency gain and avoidance of cost have been achieved;
- (b) the CEDB accepts that the parties concerned should have been more thorough when preparing the PIDR. The CEDB will review the internal procedures to ensure the disclosure of all items in the PIDR in future;
- (c) while improvements have been made since 2003, the envisaged benefit of shortening the processing time for trade declarations to less than one month has not been fully realised. The CEDB will work with the C&SD, and in consultation with the industry, to further shorten the processing time;
- (d) the benefits of the enhanced EMAN system could only be substantially realised in 2007-08 after making electronic submission of manifest (except the road mode) mandatory in June 2006. The PIDR was not submitted until November 2007 in order that the substantial realisation of benefits in 2007-08 could be reflected in the PIDR; and

- (e) the CEDB will ensure the timely submission of PIDRs in future. If some information required in a PIDR is not available in time, the CEDB would consult the OGCIO on the most appropriate actions, including for example providing the OGCIO with a PIDR first but with the outstanding information to be submitted when ready.

## **Submission of cargo manifests**

### ***2001 BPR study***

2.19 In March 2000, a BPR study (see Note 5 to para. 2.5) was conducted for back-end processing of sea, air and rail cargo manifests in the C&SD, the C&ED and the then Trade Department (now the Trade and Industry Department). According to the BPR final study report for the C&SD issued in April 2001, 88% of all cargo manifests received by the C&SD in 1999 were not submitted within the statutory time limit of seven days after the arrival or departure of the cargoes. The BPR study considered that improvement measures were urgently needed because the late submission of cargo manifests would delay C&SD processing work. It was stated in the BPR study report that there was a proposal to revise the statutory time limit for cargo manifest submission to within 14 days after the arrival or departure of the cargoes. To improve the situation, the BPR study report recommended that, after implementing the enhanced EMAN system, the following measures should be implemented:

- (a) imposing penalty on late cargo manifest submissions automatically through the EDI charging system; and
- (b) charging a higher penalty on carriers which submitted late cargo manifests repeatedly.

### ***2002 feasibility study***

2.20 After considering the recommendations of the BPR study, the feasibility study report of the enhanced EMAN system, issued in October 2002, said that:

- (a) the imposition of penalty on late submission of cargo manifests could only be introduced after effecting the necessary legislative amendments. The proposal was under policy review;
- (b) as further study was required to explore details of the late lodgement penalty system and the related charging procedures, it was premature to make full provision for the imposition of the late lodgement penalty in the enhanced EMAN system;

- (c) the service provider (Note 10) had the infrastructure in place to collect penalties from traders with late submissions. The service provider should be able to incorporate the penalty payment function for cargo manifests when the legislative amendment was approved; and
- (d) it was recommended that the existing charging system on late lodgement penalty of trade declarations be leveraged for collecting late lodgement penalty for cargo manifests should this measure be introduced.

## **Audit observations and recommendations**

### ***Lack of progress on the review to impose penalty***

2.21 The statutory time limit for the submission of cargo manifests is within 14 days after the arrival or departure of the cargoes (see para. 1.2). However, up to 31 July 2008, there was no further progress on the review of the recommendation to impose penalty on late submission of cargo manifests.

### ***Timeliness of submission of cargo manifests***

2.22 Audit compared the timeliness of submission of cargo manifests in 1999 and 2007. Details are shown in Table 3.

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**Note 10:** *Under an agreement with the Government, the service provider is responsible for receiving data electronically, confirming the identity of the trader, validating and consolidating data, charging the account of the trader for relevant fees and levies, and transmitting the data to back-end computer systems of relevant government departments.*

Table 3

## Timeliness of submission of cargo manifests

Mode of Transport	Percentage of late submission (Note 1)	
	1999 (Note 2)	2007
Air	22 %	4 %
<b>Ocean</b>	<b>58%</b>	<b>69%</b>
<b>River</b>	87 %	<b>63%</b>
Rail	100 %	35 %

Source: C&SD records

Note 1: Late submission referred to cargo manifests not submitted within 14 days after the arrival or departure of the cargoes.

Note 2: These figures were based on the 2001 BPR final study report for the C&SD.

Audit found that the overall situation was still not satisfactory in 2007. There were improvements in the timeliness of submission of air, river and rail cargo manifests in 2007 compared with that in 1999. However, over 60% of cargo manifests for the water mode (i.e. the ocean mode and the river mode) were still not submitted within the statutory time limit of 14 days after the arrival or departure of the cargoes.

#### *Audit recommendations*

2.23 In view of the late submission of cargo manifests by carriers, Audit has *recommended* that the Secretary for Commerce and Economic Development should, in conjunction with the Commissioner of Customs and Excise and the Commissioner for Census and Statistics:

- (a) introduce additional measures to urge the timely submission of cargo manifests by carriers; and
- (b) consider preparing a strategic plan to impose penalty on late submission of cargo manifests through the EDI charging system, and charging a higher penalty on carriers that submit late cargo manifests repeatedly.

## Response from the Administration

2.24 The **Secretary for Commerce and Economic Development** agrees with the audit recommendations. She has said that the CEDB will:

- (a) in conjunction with the C&ED and the C&SD, strengthen measures to urge the timely submission of cargo manifests. The C&SD would advance the issuing of reminders to water mode carriers with effect from October 2008; and
- (b) review whether to introduce a penalty system for late submissions of cargo manifests. As this would require legislative amendments, the CEDB needs to consider this carefully in consultation with the industry.

## House manifest information

### *House manifests submitted by forwarders*

2.25 Traders can now arrange consignment of cargoes with forwarders instead of carriers. The names and addresses of forwarders are often reported on cargo manifests prepared by carriers. Forwarders compile their own cargo manifests to supplement those prepared by carriers. Cargo manifests submitted by carriers are called **master manifests** and those submitted by forwarders are called **house manifests**. The cargo manifest information is used by the C&SD to match trade declarations to identify undeclared shipments and verify trade declarations. According to the C&SD, about 38% of master manifests submitted by carriers in 2007 contained house manifest information.

2.26 Unlike carriers, there is no statutory requirement for forwarders to submit the house manifests to the Government. In practice, not all forwarders prepare house manifests. Some forwarders are unwilling to divulge sensitive house manifest information to carriers. As a result, carriers cannot provide the Government with complete house manifest information. Incomplete house manifest information undermines trade declaration control, leads to loss of government revenue and jeopardises the quality of trade and cargo statistics.

### *Recommendations of the BPR study*

2.27 The recommendations of the 2001 BPR study were that the Administration should:

- (a) set administrative requirements on the submission of house manifests by carriers to the C&ED customs control points, share the house manifest information with the C&SD, and enhance the EMAN system for data collection and access for this purpose (Note 11); and
- (b) subject to the effectiveness of implementing the administrative measure, review the need for introducing legislative change to require forwarders to submit house manifests via the EMAN system within 14 days after the arrival or departure of the cargoes.

2.28 After considering the recommendations of the BPR study, the enhanced EMAN system feasibility study report, issued in October 2002, concluded that:

- (a) a two-pronged approach (i.e. a long-term and an interim solution) should be taken to address the issue;
- (b) the most desirable long-term solution was to extend the service providers' manifest lodgement services to forwarders. This would enable forwarders to submit house manifest information to carriers so that carriers could consolidate all information for onward submission to the service providers;
- (c) should the solution be considered not feasible, there would be a need to consider introducing legislative change to require forwarders to submit house manifests directly through the EMAN system. This would be a lengthy process; and
- (d) **as an interim solution, data entry functions should be provided in the enhanced EMAN system to allow the C&SD staff to enter manually the house manifest information (mainly in paper format) for back-end processing. However, this interim solution was labour-intensive and not in line with the Government's paperless and e-Government initiatives. Therefore, the practice should be short-lived and the long-term solution should be implemented as early as possible.**

The feasibility study report considered that it was a high-priority user requirement to capture house manifest information. It proposed computerised data entry functions as the interim solution.

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**Note 11:** *The C&ED had strong reservation on the feasibility of the proposed administrative arrangement mainly due to resource implications.*

*Progress on capturing house manifest information*

2.29 The enhanced EMAN system, operational in January 2006, has built in new functions to input house manifest information. The progress on capturing house manifest information in the enhanced EMAN system was as follows:

- (a) in July 2006, at an inter-departmental meeting about the enhanced EMAN system, the Administration agreed to invite the service providers to consider the feasibility of enhancing their front-end systems to receive electronic submissions directly from forwarders, and consolidate house manifest information submitted by forwarders with the master manifest information submitted by carriers;
- (b) in September 2006, the then CITB, in discussing proposals on how the house manifests in paper form could be captured by the enhanced EMAN system, reached an initial consensus with user departments that the **long-term solution** was the consolidation of house manifest information by carriers for onward submission to the service providers. The **interim measure** was the direct data input of house manifest information by the C&SD into the enhanced EMAN system;
- (c) in October 2006, one service provider's initial assessment indicated that it would require 17 months for the development of the long-term solution. The feasibility of the solution lay at how the service provider could be given the commercial incentive to invest extra resources in developing the solution, and how forwarders could be persuaded to submit house manifests voluntarily;
- (d) in January 2007, the then CITB, in a review of the collection of water mode house manifests, found that about 400 forwarders continued to provide house manifests in paper form. This was undesirable because it prevented the Government from reaping the full benefits of the enhanced EMAN system; and
- (e) in May 2007, at an inter-departmental meeting, the C&ED submitted a discussion paper on the measures for improving the data quality of house manifest information. However, members considered that the paper did not provide useful insights on how the data quality problem arising from the improper reporting of house manifest information could be resolved. The meeting continued to explore the feasibility of requiring forwarders to submit electronic cargo data to the Government, similar to what had been done in the paper-based scenario. However, this was found not feasible as it was not supported by the current legal framework (which put the responsibility of submitting electronic cargo manifests primarily on carriers). After discussion, the meeting concluded that there was no immediate solution. Nevertheless, members agreed to work along the proposed interim measures of paying more visits to carriers/forwarders, arranging seminars/briefings for the industry in conjunction with service providers, and engaging carrier associations in further dialogues after identifying a feasible proposal. In the meantime, departments would continue to look for a long-term solution.



## Audit observations and recommendations

### *Long-term solution for capturing house manifest information*

2.30 The C&SD is currently implementing the interim measure. According to the C&SD, 11 clerical staff were deployed to input house manifest information (about 180,000 inputs) into the enhanced EMAN system in 2007. This interim measure is undesirable because this is not a long-term solution (see para. 2.28(b) and (d)). The input of house manifest information from forwarders into the enhanced EMAN system in 2007 is shown in Table 4.

**Table 4**

**Input of house manifest information into the enhanced EMAN system  
(2007)**

<b>Mode of transport</b>	<b>Number of house manifest inputs by carriers (Note 1) (‘000)</b>	<b>Number of house manifest inputs by the C&amp;SD (Note 2) (‘000)</b>	<b>Total (‘000)</b>
Air	49,112	7	49,119
Water	306	173	479
<b>Total</b>	<b>49,418</b>	<b>180</b>	<b>49,598</b>

*Source: C&SD records*

*Note 1: These referred to cases in which house manifest information was completely prepared and submitted by carriers. The number of house manifest input was counted at the consignment level.*

*Note 2: These referred to cases in which house manifest information was submitted in paper form by forwarders in response to declaration notices issued by the C&SD.*

Audit noted that the number of house manifest inputs by carriers for the air mode was significantly higher than that for the water mode. In August 2008, in response to audit enquiries, the C&SD informed Audit that house manifest inputs of the air mode had traditionally been submitted by air carriers. Audit found that:

- (a) the proportion of unmatched trade declarations for the water mode submitted in 2007 was 51 % and that for the air mode was 9 % (see Figure 2 in para. 3.8); and

- (b) out of 649,287 outstanding declaration notices for the water mode as at 31 March 2008, 411,195 (or 63%) were considered by the C&ED as forwarder cases.

The lack of complete house manifest information from forwarders undermines the auto-matching function of trade declarations and cargo manifests. This is evidenced by the fact that there were a substantial number of unmatched trade declarations and outstanding declaration notices for the water mode.

### *Audit recommendations*

2.31 Audit noted that there was not much progress in identifying a **long-term solution** for capturing the house manifest information cost-effectively. **Audit has recommended that the Secretary for Commerce and Economic Development should, in conjunction with the Commissioner of Customs and Excise and the Commissioner for Census and Statistics:**

- (a) **introduce additional measures to urge the submission of house manifest information by forwarders; and**
- (b) **consider preparing a strategic plan to implement a long-term solution for capturing the house manifest information from forwarders.**

### **Response from the Administration**

2.32 The **Secretary for Commerce and Economic Development** accepts the audit recommendations. She has said that the CEDB is working with the C&SD and the C&ED to step up interim measures, such as organising more seminars to urge forwarders to submit house manifest information. The CEDB would explore, in consultation with the industry, a long-term solution for capturing house manifest information from forwarders.

### **PART 3: COMPLETENESS OF TRADE DECLARATIONS AND CARGO MANIFESTS**

3.1 This PART examines the verification of the completeness of trade declarations and cargo manifests by the C&SD and the C&ED, and suggests measures for improvement.

#### **Non-compliance with the lodgement requirements**

3.2 The C&SD and the C&ED verify the completeness of trade declarations and cargo manifests to ensure that all import or export consignments have been declared. According to the Import and Export (Registration) Regulations, any person who, without reasonable excuse, fails or neglects to lodge a trade declaration or a cargo manifest within 14 days, shall be guilty of an offence and liable on summary conviction to:

- (a) a fine of \$1,000; and
- (b) a fine of \$100 in respect of every day during which the failure to lodge the trade declaration or cargo manifest continues.

The Commissioner of Customs and Excise may, on the lodgement of any trade declaration that is incomplete in any respect, refuse to accept the **trade declaration** until it is completed in every respect and, upon such refusal, the trade declaration shall be deemed not to have been lodged with the Commissioner. All **cargo manifests** shall be completed in such manner and in such number of copies as the Commissioner of Customs and Excise may require. In addition, a **late lodgement penalty** of up to \$200 is charged upon the late lodgement of a trade declaration. Details are shown in Table 5.

**Table 5****Late lodgement penalty of trade declarations**

Trade value	Late lodgement (Note)		
	Within one month	Over one month to two months	After two months
Not exceeding \$20,000	\$20	\$40	\$100
Exceeding \$20,000	\$40	\$80	\$200

*Source: C&ED records*

*Note: Late lodgement refers to trade declarations not submitted within the statutory time limit of 14 days after importation or exportation of the declared goods.*

3.3 The key steps in verifying the completeness of trade declarations and cargo manifests are as follows:

- (a) matching cargo manifests with transportation schedules and matching trade declarations with cargo manifests by the C&SD; and
- (b) following up outstanding manifest advices and outstanding declaration notices, and conducting Compliance Promotion Programme (CPP) by the C&ED.

**Verification by the Census and Statistics Department*****Matching cargo manifests with transportation schedules***

3.4 The C&SD Trade Statistics Processing Section and the Shipping and Cargo Statistics Section collect transportation schedules such as flight details from the Airport Authority, voyage records from the Marine Department and train wagon lists from the Mass Transit Railway Corporation Limited. The transportation schedules are matched with cargo manifests submitted by carriers for identifying missing cargo manifests. Manifest advices are sent by the C&SD to the carriers for chasing up missing cargo manifests. For outstanding manifest advices remaining unreplied after 14 days for the air and rail modes, and one month for the ocean and river modes, first reminders are sent to the carriers and followed by second reminders after another 14 days and one month respectively. For unreplied cases, the C&ED will access the records through the enhanced EMAN system for follow-up action after another 14 days for the four modes.

*Matching trade declarations with cargo manifests*

3.5 To identify missing trade declarations, trade declarations submitted by traders are matched with cargo manifests submitted by carriers through the auto-matching function in the enhanced EMAN system. The information on cargo manifests is matched with those on trade declarations based on predetermined matching criteria. The Trade Statistics Processing Section performs manual on-line content check on sample auto-matched records and marks off matched trade declarations. This section also performs manual on-line probable match on all unmatched records and issues **declaration notices** to the traders for confirmed unmatched records. Unreplied declaration notices over 90 days are automatically referred to the C&ED through the enhanced EMAN system.

**Audit observations and recommendations***Late submission of cargo manifests*

3.6 Audit requested the C&SD to analyse the time of submission of trade declarations and cargo manifests in 2007. The analyses for trade declarations and cargo manifests are shown at Appendix C and Appendix D respectively. The results showed that in 2007, 88% of trade declarations were submitted within 14 days after the importation or exportation of the declared goods, whereas only 63% of cargo manifests were submitted within 14 days after the arrival or departure of cargoes. In 2007, the percentages of cargo manifests submitted within 14 days after the arrival or departure of cargoes were as follows:

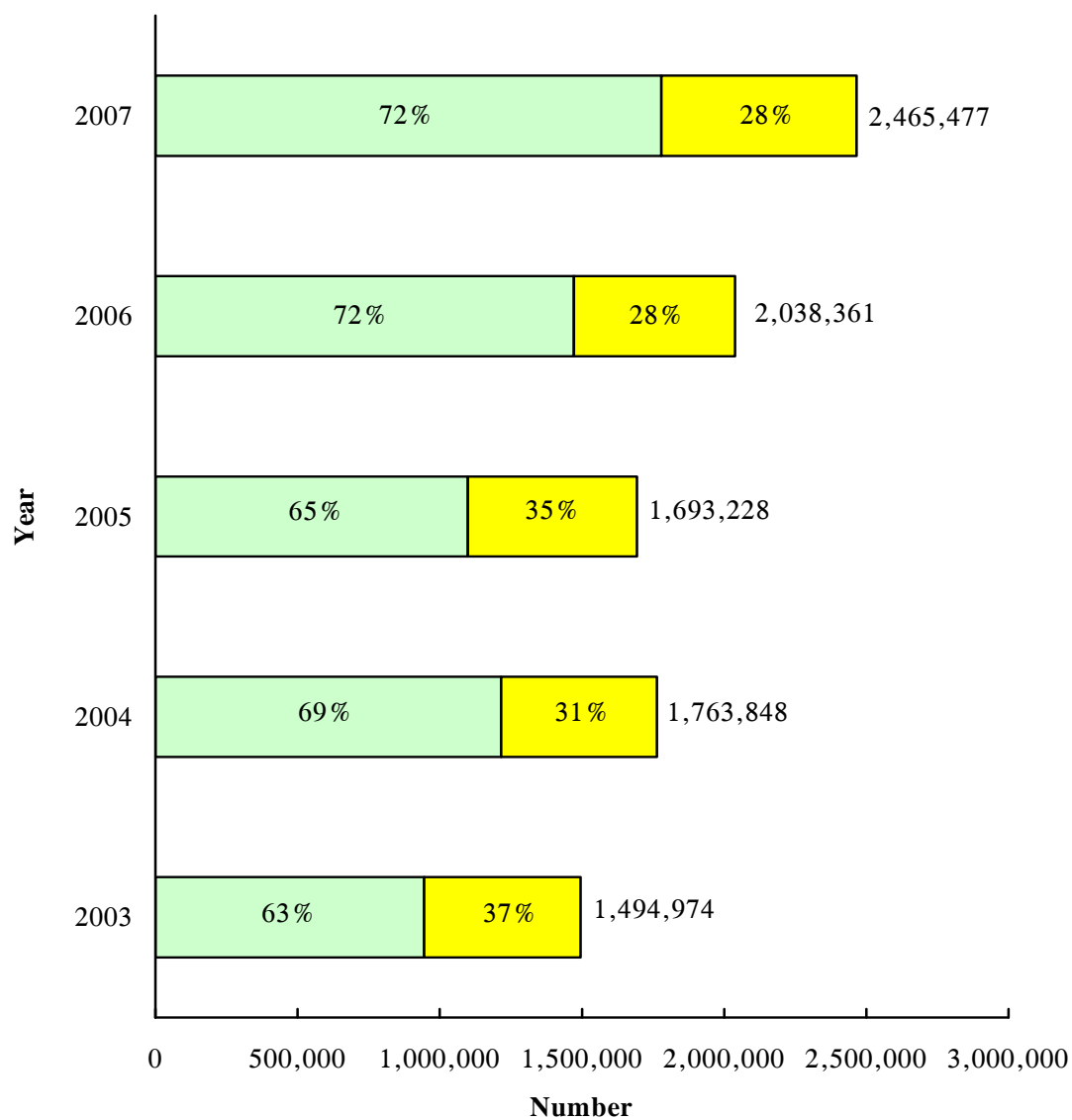
- (a) 96% for air mode;
- (b) 31% for ocean mode and 37% for river mode; and
- (c) 65% for rail mode.

*Increase in the issue of declaration notices*

3.7 In the past five years, there was a 15% increase in the number of trade declarations, from 17.2 million in 2003 to 19.8 million in 2007. However, there was a 65% increase in the number of **declaration notices** (see para. 3.5) issued by the C&SD, from 1,494,974 in 2003 to 2,465,477 in 2007. An analysis of declaration notices issued from 2003 to 2007 is shown in Figure 1.

**Figure 1**

**Analysis of declaration notices issued  
(2003 – 2007)**



Legend:  Unreplied declaration notices  
 Replied declaration notices

Source: C&SD records

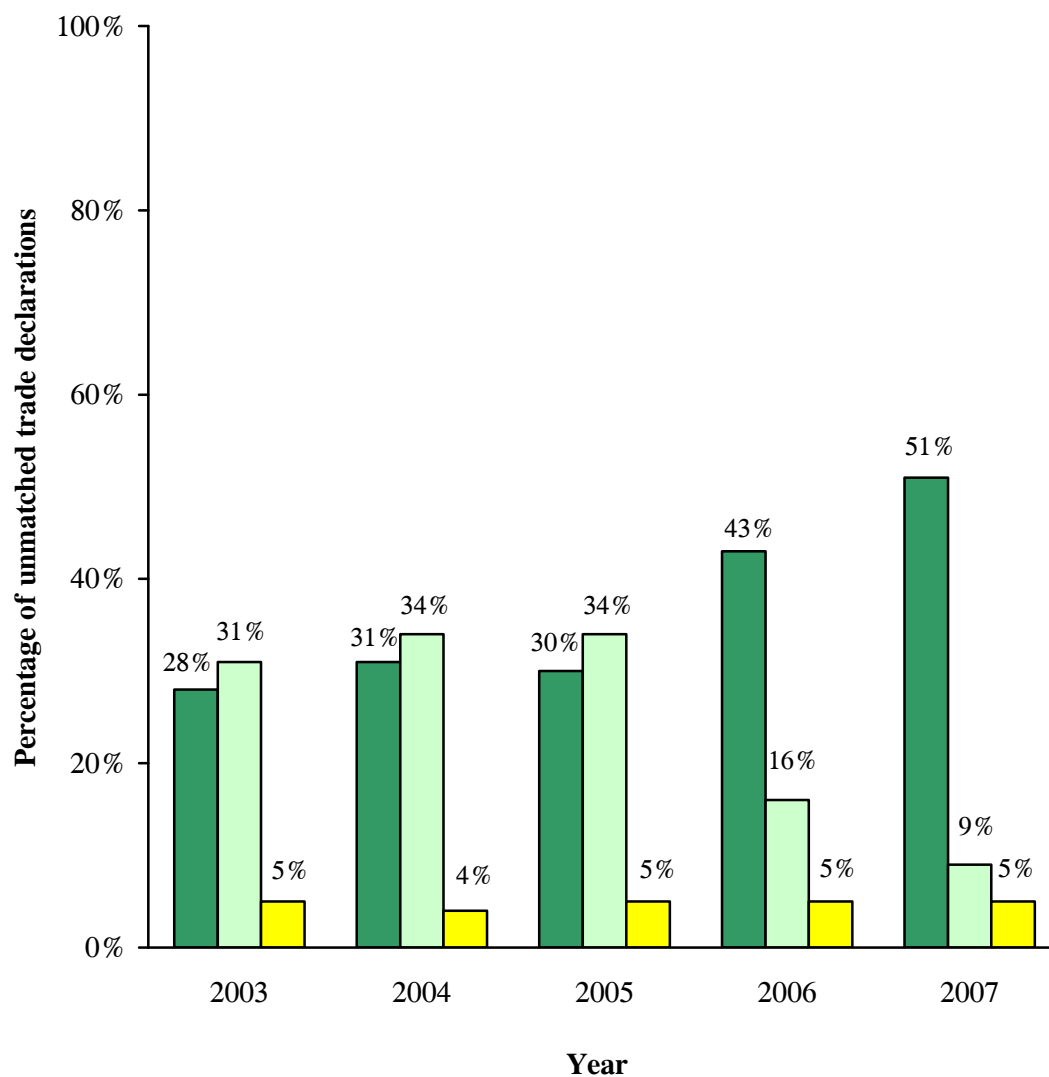
Audit noted that there was an increase in the number of unreplied declaration notices. The percentage of unreplied declaration notices increased from 63% in 2003 to 72% in 2007.

*Increase in the proportion of unmatched trade declarations*

3.8 In the past five years, the number of unmatched trade declarations increased by 31%, from 3,327,284 in 2003 to 4,351,831 in 2007. The overall proportion of unmatched trade declarations remained fairly constant, from 21% in 2003 to 20% in 2007. The proportion of unmatched trade declarations by mode of transport is shown in Figure 2.

Figure 2

**Proportion of unmatched trade declarations  
(2003 – 2007)**



Legend:

- Water mode (i.e. ocean mode and river mode)
- Air mode
- Land mode (i.e. rail mode and road mode)

Source: C&SD records

Remarks: Trade declarations under road mode were not processed by the enhanced EMAN system.



Audit noted that the proportion of unmatched trade declarations for:

- (a) the air mode had improved substantially and decreased from 31 % in 2003 to 9 % in 2007;
- (b) **the water mode had deteriorated substantially and increased from 28% in 2003 to 51% in 2007; and**
- (c) the land mode had remained fairly constant from 2003 to 2007, ranging from 4 % to 5 %.

*Need to improve compliance with the lodgement requirements*

3.9 Late lodgement of cargo manifests has an adverse impact on the processing time of trade declarations. It delays the matching of trade declarations with cargo manifests. The problem was particularly serious for the water mode as less than 40% of cargo manifests submitted in 2007 were submitted within 14 days after the arrival or departure of cargoes. Besides, trade declarations are submitted more timely than cargo manifests. Apparently, the additional late lodgement penalty has a deterrent effect on the late lodgement of trade declarations (see para. 3.2).

3.10 The increase in the number of declaration notices issued and unmatched trade declarations indicates that the completeness of information on trade declarations and cargo manifests has to be improved. The problem was particularly serious for the water mode as, in 2007, 51% of the trade declarations could not be matched with cargo manifests.

*Audit recommendations*

3.11 **Audit has recommended that the Commissioner for Census and Statistics should, in consultation with the Commissioner of Customs and Excise:**

- (a) **closely monitor, by modes of transport, the time of submission of cargo manifests, the number of declaration notices issued and the proportion of unmatched trade declarations, and introduce additional measures to ensure compliance with the lodgement requirements;**
- (b) **seek the advice of the service providers and devise additional measures to detect incomplete trade declarations and cargo manifests;**

- (c) **regularly review the completeness of information on trade declarations and cargo manifests, and issue more guidelines to and organise more seminars for traders, carriers and forwarders to further improve data quality of trade declarations and cargo manifests; and**
- (d) **devise a mechanism for referring serious cases to the Commissioner of Customs and Excise for taking enforcement action to strengthen compliance with the lodgement requirements.**

### **Response from the Administration**

3.12 The **Commissioner for Census and Statistics** agrees with the audit recommendations. He has said that:

- (a) the C&SD is currently undertaking various measures (e.g. issue of reminders) to urge importers, exporters and carriers to submit quality trade declarations and cargo manifests in a timely manner. The C&SD agrees to strengthen measures to urge the timely submission of trade declarations and cargo manifests. The C&SD will advance the issuing of reminders to water mode carriers from October 2008;
- (b) the situation is being closely monitored. A set of validation rules are already in place in the service providers' systems and the EMAN system to validate the data fields which are used for matching purpose. The C&SD will work with the service providers to devise additional measures to detect incomplete trade declarations and cargo manifests;
- (c) the EMAN guidebook, prepared under the coordination of the OGCIO with the CEDB, the C&ED, the C&SD and the TID, is made available for reference of carriers. A booklet on "How to Complete and Lodge Import/Export Declarations", prepared by the C&SD in consultation with the C&ED, is also made available for reference by importers and exporters. The C&SD will issue more guidelines and organise more seminars. Since August 2008, the C&SD and the C&ED have been organising seminars jointly, rather than by the C&SD alone; and
- (d) the C&SD agrees to work with the C&ED to devise a referral mechanism for serious cases.

3.13 The **Commissioner of Customs and Excise** agrees with the audit recommendation. He has said that the C&ED will step up actions to identify blatant offenders and initiate prosecution action against them to achieve better deterrent effect.

## **Follow-up actions by the Customs and Excise Department**

3.14 The Trade Declaration Verification Unit (TDVU) of the TDID is responsible for taking follow-up actions on outstanding manifest advices and declaration notices. The TDVU follows up all cases of road mode referred by the C&SD (see para. 3.24) and selects cases from the enhanced EMAN system for other modes of transport. Outstanding manifest advices are sorted by carriers' names and outstanding declaration notices are sorted by traders' names before they are assigned to the inspection officers. The TDVU keeps a register of the assigned cases for outstanding manifest advices, and a register of the assigned cases for outstanding declaration notices. The TDVU sends a letter together with a list of the outstanding declaration notices or manifest advices to the defaulting company. The letter serves as a reminder to advise the trader or carrier of the legal requirement to lodge trade declarations or cargo manifests, and the traders to pay the required declaration charges within a stipulated time limit.

3.15 If the defaulting company fails to respond to the reminder, the case officer will pay a visit to the company concerned to find out the causes of non-compliance. A final reminder will be sent or an interview will be arranged with the representative of the defaulting company if the trader or carrier fails to comply with the legal requirements within the specified time limit.

## **Audit observations and recommendations**

### ***Need to clear the backlog of outstanding declaration notices***

3.16 The productivity of the TDVU is shown in Table 6.

**Table 6**  
**Productivity of the TDVU**  
**(2005-06 to 2007-08)**

<b>Staff</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>
Establishment (i.e. number of posts) as at 1 April	20	20	19
<b>Strength (i.e. number of staff) for the year (A)</b>	<b>18.0</b>	<b>17.8</b>	<b>14.5</b>
<b>Workload</b>	<b>(‘000)</b>	<b>(‘000)</b>	<b>(‘000)</b>
Number of outstanding declaration notices checked and completed	158	186	146
Number of outstanding manifest advices checked and completed	14	12	13
Number of miscellaneous underpayment cases checked and completed	10	6	8
<b>Total number of cases checked and completed (B)</b>	<b>182</b>	<b>204</b>	<b>167</b>
<b>Average number of cases completed by each officer (C) = (B) ÷ (A)</b>	<b>10</b>	<b>11</b>	<b>12</b>
<b>Revenue</b>	<b>(\$’000)</b>	<b>(\$’000)</b>	<b>(\$’000)</b>
Declaration charges recovered	5,900	6,700	6,100
Penalties imposed	16,100	18,300	14,500
<b>Total (D)</b>	<b>22,000</b>	<b>25,000</b>	<b>20,600</b>
<b>Average revenue collected by each officer (E) = (D) ÷ (A)</b>	<b>1,222</b>	<b>1,404</b>	<b>1,421</b>

*Source: Audit analysis of C&ED records*

Audit noted that the output (i.e. the number of cases checked and completed) had decreased from 204,000 cases in 2006-07 to 167,000 cases in 2007-08 mainly because of the increase in the number of staff vacancies. Despite the two to four staff vacancies in the past three years, there was a general increase in the average number of cases completed and the average revenue collected by each officer.

3.17 Audit noted that, as at 31 March 2008, 1,687,000 outstanding declaration notices had not been assigned to the inspection officers for taking follow-up actions. The C&ED indicated that, of these outstanding declaration notices, 957,000 (or 57%) were forwarder cases and should not be pursued. The C&ED estimated that the potential revenue for the remaining 730,000 outstanding declaration notices would range from \$69 million to \$86 million. Based on the 167,000 cases checked and completed in 2007-08, it would take about four years for the TDVU to clear the backlog.

#### ***Audit recommendations***

3.18 Audit has *recommended* that the Commissioner of Customs and Excise should:

- (a) consider filling the staff vacancies of the TDVU in order to expedite the follow-up actions on outstanding manifest advices and declaration notices; and
- (b) critically evaluate the cost-effectiveness of deploying additional staff to clear the backlog.

#### **Response from the Administration**

3.19 The Commissioner of Customs and Excise accepts the audit recommendations. He has said that the C&ED will:

- (a) take steps to fill the staff vacancies as soon as possible; and
- (b) in consultation with the CEDB, critically assess the cost-effectiveness of deploying additional staff to deal with the workload and backlog. At present, mainly because of the automation of the referral system, the C&ED has difficulty in handling all the cases referred to it by the C&SD. The C&ED will, in consultation with the CEDB and the C&SD, examine various ways to help improve the situation, including the possibility of adopting a more targeted approach in the referral system. The C&ED hopes that improvements in areas (such as the provision of fuller information in cargo manifests) mentioned in paragraphs 3.6 to 3.10 would help ease its workload by reducing the number of referrals.

3.20 The **Secretary for Commerce and Economic Development** has said that at present, mainly because of the automation of the referral system, the C&ED has difficulty in handling all the cases referred to it by the C&SD. The CEDB will examine various ways to help improve the situation by, for example, asking the C&SD and the C&ED to consider adopting a more targeted approach in the referral system. She hopes that improvements in up-stream areas would help ease the C&ED workload by reducing the number of referrals coming down-stream.

### **Compliance Promotion Programme of the Customs and Excise Department**

3.21 In April 2004, in addition to assigning outstanding manifest advices and declaration notices to the inspection officers, the TDVU introduced the CPP. The main objectives of the CPP are to educate:

- (a) the traders who have habitually failed to lodge trade declarations in time and ignored declaration notices sent to them; and
- (b) the carriers who have habitually failed to lodge cargo manifests in time and ignored manifest advices sent to them.

Up to 30 June 2008, the TDVU completed 178 CPP cases. Details are shown in Table 7.

**Table 7**  
**Completed CPP cases**  
**(April 2004 to June 2008)**

<b>Period</b>	<b>Number of completed cases</b>	<b>Number of outstanding declaration notices</b>	<b>Number of outstanding manifest advices</b>	<b>Declaration charges (Note) (\$'000)</b>	<b>Penalties (Note) (\$'000)</b>	<b>Total (\$'000)</b>
2004-05	40	8,455	530	304	974	1,278
2005-06	48	7,640	1,393	300	693	993
2006-07	41	5,273	666	310	635	945
2007-08	43	6,240	3,519	400	854	1,254
April to June 2008	6	544	454	3	79	82
<b>Total</b>	<b>178</b>	<b>28,152</b>	<b>6,562</b>	<b>1,317</b>	<b>3,235</b>	<b>4,552</b>

*Source: C&ED records*

*Note: Declaration charges or penalties were only applicable to CPP cases involving underpaid trade declarations or using wrong trade declaration forms.*

3.22 The procedures of the CPP are documented in the TDVU work manual (CPP manual). According to the manual, the C&SD identifies a number of companies with repeated offences or a large number of outstanding declaration notices or manifest advices of the following categories, and refers them to the C&ED:

- (a) suspected non-lodgement of trade declarations;
- (b) suspected non-lodgement of cargo manifests;
- (c) suspected inaccurate information given in trade declarations; and
- (d) application for refund of overpaid declaration charges.

3.23 The cases referred by the C&SD are assigned to inspection teams. Each inspection team comprises one Trade Controls Officer and one Assistant Trade Controls Officer. In each case, the assigned team, after making an appointment, pays a visit to the company and interviews the management of the company. During the interview, the case officers explain to the management about the undesirable situation and advise the company to make improvement.

## **Audit observations and recommendations**

### ***Need to update CPP manual***

3.24 Since June 2006 (see para. 2.4(b)), the C&ED has been able to access the data in the system for all modes of transport except the road mode. There is no need for the C&SD to refer cases other than road mode to the C&ED. The CPP manual only specifies the selection of CPP cases by the C&SD. However, the CPP manual does not specify the procedures for selecting CPP cases by the TDVU (i.e. other than the road mode). **Audit considers that the TDVU needs to update its CPP manual to include the criteria for selecting CPP cases other than the road mode.**

3.25 ***Two blatant cases not selected for the CPP.*** Audit noted that, up to 30 June 2008, despite repeated referrals from the C&SD, two companies (viz. Case A and Case B) with over 1,000 outstanding declaration notices had not been selected for the CPP. Details are shown in Table 8.



Table 8

## Two blatant cases not selected for the CPP

Case	Date of referral	Number of outstanding declaration notices	
A	18 March 2008	502	} 1,190
	21 April 2008	688	
B	11 May 2007	131	} 1,262
	21 June 2007	153	
	24 July 2007	112	
	23 August 2007	188	
	13 September 2007	146	
	19 November 2007	203	
	18 March 2008	155	
	16 June 2008	174	

Source: C&ED records

3.26 **Three minor CPP cases selected for the CPP.** In 2007-08, the TDVU completed 43 CPP cases. Audit noted that three companies with a small number of outstanding declaration notices or irregularities were included in the 43 CPP cases. Details are shown in Table 9.

**Table 9**  
**Three minor CPP cases completed in 2007-08**

Case	Number of outstanding declaration notices	Number of wrong forms	Total
C1	8	3	11
C2	15	3	18
C3	—	1	1
<b>Total</b>	<b><u>23</u></b>	<b><u>7</u></b>	<b><u>30</u></b>

*Source: C&ED records*

In July 2008, in response to audit enquiries, the C&ED informed Audit that these three companies were selected as a special exercise with a view to stopping them from using the wrong trade declaration forms. **In Audit's view, the selection of these minor cases for CPP was not in line with the CPP procedures (see para. 3.22). It will be more cost-effective if the TDVU organises more seminars for traders, carriers and forwarders to promote the lodgement of trade declarations or cargo manifests in accordance with the lodgement requirements.**

***Need to strengthen enforcement actions on repeated offenders***

3.27 According to the CPP manual, the C&ED may prosecute the company which fails to make improvement for the related offences three months after the C&ED visit. Of the 43 CPP cases completed in 2007-08, 17 companies (or 40%) took more than three months (ranging from 3.3 months to 21.4 months) to submit the outstanding trade declarations or cargo manifests after the C&ED visit. Audit found that after clearing their outstanding declaration notices or manifest advices, eight of these companies had accumulated a large number of outstanding declaration notices (ranging from 116 declaration notices to 2,896 declaration notices) or manifest advices (ranging from 409 manifest advices to 930 manifest advices) as at 30 June 2008. Audit noted that, after the introduction of the CPP in 2004, all the C&ED prosecution efforts on companies, which had failed to make improvement and continued with the practice of late lodgement, were unsuccessful. **To deter repeated offenders, the C&ED needs to consider taking prosecution actions in warranted cases.**

*Audit recommendations*

3.28      **Audit has recommended that the Commissioner of Customs and Excise should:**

- (a)      **update the CPP manual, taking into account the changes in procedures after the full implementation of the enhanced EMAN system;**
- (b)      **include the criteria for selecting all CPP cases in the CPP manual;**
- (c)      **consider organising more seminars for traders, carriers and forwarders to promote the lodgement of trade declarations or cargo manifests in accordance with the lodgement requirements; and**
- (d)      **step up prosecution actions on repeated offenders in warranted cases.**

**Response from the Administration**

3.29      **The Commissioner of Customs and Excise accepts the audit recommendations. He has said that:**

- (a)      the C&ED will update the CPP manual to reflect the changes in procedures arising from the full implementation of the enhanced EMAN system;
- (b)      the C&ED will include the selection criteria in the CPP manual. Of the two companies not selected for the CPP mentioned in paragraph 3.25, one company had in fact been assigned to an officer for close monitoring. The company made positive response and had taken prompt actions to lodge the overdue trade declarations. The C&ED therefore considered that no CPP was necessary. The other company was untraceable and no CPP could be conducted. More efforts are being made to locate the whereabouts of the company. The three CPP cases mentioned in paragraph 3.26 were in fact initiated as a special exercise to educate traders on the proper forms to be used. In these cases, the number of trade declarations involved was not the main consideration;
- (c)      the C&ED organised two educational seminars for 95 participants from 57 traders in August and September 2008. More seminars will be arranged in future; and

- (d) the maximum penalty for failing to lodge trade declarations within the prescribed time is \$1,000 only. A prosecution case will require considerable time. With the same amount of time, an officer could complete a greater number of outstanding cases with the imposition of administrative penalty which may be close to the fine that may be imposed by the court. The C&ED considers that it would be more cost-effective to impose administrative penalty rather than prosecution. However, to achieve more deterrent effect, the C&ED agrees to step up actions to prosecute repeated offenders in warranted cases.

## **PART 4: ACCURACY OF TRADE DECLARATIONS**

4.1 This PART examines the verification of the accuracy of trade declarations and the imposition of administrative penalties on underpaid declaration charges, and suggests measures for improvement.

### **Inaccurate trade declarations**

4.2 The C&SD and the C&ED verify the declared values of goods on the trade declarations to ensure their accuracy. According to regulations 4(5) and 5(5) of the Import and Export (Registration) Regulations, any person who knowingly or recklessly lodges any inaccurate declaration with the Commissioner of Customs and Excise shall be guilty of an offence and shall be liable on summary conviction to a **fine** of \$10,000. Inaccurate trade declarations may be subject to **administrative penalties** or prosecution. In cases of undervaluation offences of a technical nature (e.g. clerical error or inadvertent omission), the C&ED:

- (a) recovers underpaid declaration charges; and
- (b) imposes an administrative penalty based on the amount of underpaid declaration charge assessed.

If there is sufficient evidence to prove fraudulent undervaluation or false declaration, the C&ED may take prosecution action on the trader. In 2007-08, underpaid declaration charges of \$0.86 million were recovered and administrative penalties of \$1.87 million were collected.

4.3 The recovery of underpaid declaration charges and the imposition of administrative penalties are subject to the following statutory time limits:

- (a) under section 4(1) of the Limitation Ordinance (Cap. 347), actions to recover declaration charges shall not be brought after the expiration of six years from the lodgement date of trade declarations; and
- (b) under section 4(5) of the Limitation Ordinance, actions to recover administrative penalties shall not be brought after the expiration of two years from the lodgement date of trade declarations.

## **Verification by the Census and Statistics Department**

4.4 The Trade Classification Section (TCS) is responsible for identifying inaccurate trade declarations. The TCS adopts a risk management approach and selects high-risk and sensitive trade declarations for checking based on prescribed criteria. All submitted trade declarations are screened by the computer system against the prescribed criteria. If suspected errors are identified, the TCS staff would seek clarification from traders.

4.5 Trade declarations identified with potential valuation errors are referred to the Trade Verification Unit (TVU) of the TCS. Queries are sent by the TVU to the traders requesting them to produce supporting documents for verification. Reminders are sent if the traders do not respond within 14 days. The TVU checks the particulars on the trade declarations against the documents received. For verified cases of understated trade values not exceeding \$50,000, the C&SD raises demand letters to the traders to recover the underpaid declaration charges as well as the administrative penalties. Other cases (i.e. verified cases of understated trade values exceeding \$50,000 or unverifiable cases with insufficient supporting documentation or with no response from traders) are referred to the C&ED for follow-up actions.

## **Audit observations and recommendations**

### ***Need to shorten the processing time***

4.6 In 2007-08, the C&SD completed the verification of 38,162 trade declaration cases, of which 18,105 cases were referred to the C&ED for follow-up actions. Of the 18,105 referral cases, Audit selected 20 cases for examination. The examination results indicated that the TCS and the TVU took:

- (a) an average of 433 days to process the verified cases of understated trade values exceeding \$50,000;
- (b) an average of 423 days to process the unverifiable cases with insufficient supporting documentation; and
- (c) an average of 477 days to process the unverifiable cases with no response from traders.

4.7 In Audit's view, the time taken by the C&SD in the verification of the accuracy of trade declarations was too long, having regard to the statutory two-year time limit for imposing administrative penalties (see para. 4.3(b)) and the additional verification work by the C&ED. In July 2008, in response to audit enquiries, the C&SD informed Audit that:

- (a) the two-year time limit for the 20 cases had not lapsed;
- (b) while the C&SD aimed at processing cases within the shortest possible time, the reasons for a longer than usual processing time were as follows:
  - (i) some importers or exporters provided insufficient supporting documentation, causing the delay in verification;
  - (ii) some complicated cases required cross-referencing with other trade declarations submitted by the same importer or exporter;
  - (iii) repeated contacts with uncooperative importers or exporters were made; and
  - (iv) the C&SD had resources constraints; and
- (c) the C&SD considered that there was room for improvement in shortening the processing time. As an initiative to continuously improve its services, the C&SD had recently implemented an action plan aiming at completing the verification of trade declaration cases within six months. Upon the successful completion of the action plan by the end of 2008, the processing time for verifying the accuracy of trade declarations would be improved.

#### *Audit recommendations*

4.8 **Audit has recommended that the Commissioner for Census and Statistics should:**

- (a) **closely monitor the implementation of the action plan for completing the verification of trade declaration cases within six months; and**
- (b) **ensure that all processed cases are promptly referred to the C&ED for follow-up actions.**

#### **Response from the Administration**

4.9 The Commissioner for Census and Statistics agrees with the audit recommendations. He has said that:

- (a) there is room for further improvement. An action plan has been implemented aiming at completing the processing of trade declarations within six months by end-2008. The C&SD will closely monitor the action plan; and
- (b) the C&SD will ensure that all processed cases will be promptly referred to the C&ED for follow-up actions.

### **Verification by the Customs and Excise Department**

4.10 The Trade Declaration Assessment Unit (TDAU) is responsible for taking follow-up actions on cases referred by the C&SD. A case register is prepared to record all referral cases. The cases are grouped by traders' names and allocated to the investigation officers. For verified cases of understated trade values exceeding \$50,000, the investigation officers conduct further investigation to confirm the undervaluation. For unverifiable cases with no response from traders or insufficient supporting documentation, the investigation officers send notices of verification to the traders to obtain supporting documents. If the trader is unable to provide the requested supporting documents, the investigation officer will make an estimated assessment of the underpaid declaration charge. After completing the verification work, the investigation officer prepares a trade declaration assessment report and issues a demand letter to the trader for recovering any underpaid declaration charges together with the administrative penalties.

### **Audit observations and recommendations**

4.11 Of the 13,725 trade declarations processed by the C&ED from January 2007 to June 2008, Audit selected 20 cases for examination.

4.12 *Two time-barred cases.* Audit found that two undervaluation cases were completed after the statutory six-year limit for recovering declaration charges (see para. 4.3(a)). As a result, demand letters to recover underpaid declaration charges of \$1,130 and administrative penalties of \$2,600 were not issued to the traders.

4.13 **Audit considers that the TDAU needs to accord higher priority for cases approaching the statutory time limit and monitor closely the progress of the verification of undervaluation cases in order to complete the verification work before the expiry of time limit.**



4.14 ***Two no further action (NFA) cases.*** Audit found that the C&ED erroneously returned two cases to the C&SD as NFA cases. In both cases, the traders initiated amendments to the declared trade values of the trade declarations. As the understated trade values of both cases exceeded \$50,000, the C&SD referred the cases to the C&ED for investigation. However, the TDAU marked these two cases as NFA cases and returned them to the C&SD without recovering the underpaid declaration charges.

4.15 In July 2008, in response to audit enquiries, the C&ED reassigned the two cases to the investigation officers for follow-up actions. The C&ED explained to Audit that these two NFA cases were caused by human errors due to heavy workload. **In Audit's view, the C&ED needs to carry out a detailed check of all NFA cases before returning them to the C&SD.**

#### ***Audit recommendations***

4.16 **Audit has recommended that the Commissioner of Customs and Excise should:**

- (a) **accord higher priority to verifying trade declaration cases with impending time-barred dates;**
- (b) **monitor closely the progress of the verification of undervaluation cases; and**
- (c) **carry out a detailed check of all NFA cases before returning them to the C&SD.**

#### **Response from the Administration**

4.17 The **Commissioner of Customs and Excise** accepts the audit recommendations. He has said that the C&ED:

- (a) will accord higher priority to verifying trade declaration cases with impending time-barred dates;
- (b) will explore ways to reduce the time required for completing the verification work; and
- (c) has taken remedial actions by enhancing the daily report and double-checking NFA cases before returning them to the C&SD.

## **Imposition of administrative penalties on underpaid declaration charges**

4.18 The C&ED is responsible for assessing and recovering underpaid declaration charges, and imposing administrative penalties on underpaid declaration charges. According to the Import and Export (Registration) Regulations, the maximum administrative penalty shall be up to 20 times the underpaid declaration charge provided that no penalty imposed shall exceed \$10,000. The C&ED has laid down a penalty scale for the first or second and subsequent offences in its Code of Practice. According to the C&ED penalty scale, the administrative penalty is imposed on the basis of the assessed underpaid declaration charge, taking into account the trader's previous offences.

4.19 Since 1995, the Commissioner of Customs and Excise has delegated to some C&SD officers the power to assess and recover underpaid declaration charges and to impose administrative penalties. According to the authorisation memorandum issued in March 1995, the C&SD officers would deal with assessment and recovery of underpaid declaration charges and imposition of administrative penalties in undervaluation cases of understated trade value not exceeding \$50,000. It was agreed that the administrative penalty for each understated trade declaration be fixed at a minimum of \$6 or two times the underpaid declaration charge, whichever was the greater. Following the reduction of declaration charges in 1998, the minimum administrative penalty for each understated trade declaration was revised from \$6 to \$5.

4.20 The C&SD handles some cases of understated trade values exceeding \$50,000 adopting the same penalty scale agreed with the C&ED in 1995. Such cases are not selected by the C&SD for verification but initiated by traders who submit amendments directly to the C&SD.

## **Audit observations and recommendations**

### ***Need to align penalty scales of the C&SD and the C&ED***

4.21 Audit noted that there was a disparity between the penalty scales of the C&SD and the C&ED. In addition, unlike the C&ED, the C&SD did not take into account the traders' previous offences for imposing administrative penalties. The penalty scales of the C&ED and the C&SD are shown in Table 10.

Table 10

## Penalty scales of the C&amp;ED and the C&amp;SD

Penalty	C&ED		C&SD
	Underpaid declaration charges not exceeding \$50	Underpaid declaration charges exceeding \$50	
First offence	\$100 or 20 times the underpaid declaration charge, whichever is the lower	\$100 in respect of first \$50 underpaid declaration charge and \$100 in respect of each additional underpaid declaration charge of \$50 or part thereof	\$5 or two times the underpaid declaration charge, whichever is the greater
Second and subsequent offences	\$200 or 20 times the underpaid declaration charge, whichever is the lower	Two times the penalty of the first offence	Same penalty as the first offence

Source: C&ED and C&SD records

Remarks: According to the Import and Export (Registration) Regulations, no penalty imposed shall exceed \$10,000.

#### Audit recommendations

4.22 The disparity between the penalty scales of the C&ED and the C&SD has financial implications in that a lower administrative penalty is imposed by the C&SD than the C&ED for the same underpaid declaration charge. Regarding the imposition of administrative penalties on underpaid declaration charges, Audit has *recommended* that the Commissioner of Customs and Excise should consider:

- (a) aligning the penalty scales of the C&ED and the C&SD; and
- (b) advising C&SD officers to take into account the traders' previous offences.

## **Response from the Administration**

4.23 The **Commissioner of Customs and Excise** accepts the audit recommendations. He has said that the C&ED will:

- (a) liaise with the C&SD to align the penalty scales of the C&ED and the C&SD;  
and
- (b) share with the C&SD information regarding the traders' previous offences.

## **PART 5: TRADE STATISTICS AND PERFORMANCE INFORMATION**

5.1 This PART examines the dissemination of trade statistics and shipping statistics by the C&SD, the reporting of performance information in relation to the processing, verification, control and assessment of trade declarations and cargo manifests by the C&SD and the C&ED, and suggests measures for improvement.

### **Trade statistics**

5.2 Trade statistics are widely used in Hong Kong and abroad as an indicator of the trade position of Hong Kong. They are useful information for economic analysis, market research, investment and business decision making, and formulation of economic policy. External trade constitutes a key element of the Gross Domestic Product of Hong Kong.

5.3 All goods that cross the boundary of Hong Kong, except articles which are exempted from trade declaration, are included in the trade statistics system. These include imports, domestic exports and re-exports. **Trade statistics are compiled from trade declarations and shipping statistics are compiled from cargo manifests.** Detailed trade statistics in terms of value and quantity analysed by commodity and country/territory of consignment and origin are available. Trade index numbers reflecting changes in value, prices and volume of external trade are also compiled.

### **Dissemination of trade statistics**

5.4 Trade statistics and shipping statistics are disseminated in the form of press releases, statistical publications and computer printouts. For certain analysis and research purposes requiring a large volume of trade data, users may obtain trade statistics in the form of diskettes or compact discs to facilitate further processing by computer. In partnership with a private company, the C&SD also disseminates merchandise trade statistics on CD-ROM on a monthly basis and shipping statistics on a quarterly basis.

### **Publication of trade statistics**

5.5 The following publications on trade statistics and shipping statistics are published by the C&SD periodically:

- (a) Hong Kong Merchandise Trade Statistics – Imports (monthly);
- (b) Hong Kong Merchandise Trade Statistics – Imports (annual supplement);

- (c) Hong Kong Merchandise Trade Statistics — Domestic Exports and Re-exports (monthly);
- (d) Hong Kong Merchandise Trade Statistics — Domestic Exports and Re-exports (annual supplement);
- (e) Hong Kong External Merchandise Trade (monthly);
- (f) Annual Review of Hong Kong External Merchandise Trade (annual);
- (g) Hong Kong Merchandise Trade Index Numbers (monthly); and
- (h) Hong Kong Shipping Statistics (quarterly).

These publications are mainly issued to government departments, academic institutions and international organisations on a complimentary basis or sold to subscribers and the public.

## **Audit observations and recommendations**

### ***Need to save paper and minimise costs***

5.6 From 2005 to 2007, only a small portion (ranging from 4% to 20%) of the printed monthly publications was sold. An analysis of the distribution of trade statistics and shipping statistics publications is shown at Appendix E. As at 31 May 2008, the unsold copies of these monthly publications ranged from 5% to 39% of the printed publications.

5.7 All C&SD publications issued and commonly used statistical tables are available for free download via C&SD website. To facilitate the dissemination of massive data, CD-ROM products, either produced in-house or in partnership with private companies, are available for purchase on the spot at the C&SD Publications Unit and the private company's sales outlet, or through mail order service online at C&SD website. Users may also visit the C&SD Service Centre on Trade Statistics for access to detailed merchandise trade statistics using a simple and user-friendly electronic data retrieval system. **In view of the multifarious means of making trade statistics available to the public, Audit considers that the printing of monthly trade statistics publications may not be necessary and cost-effective. Moreover, for all but one monthly trade statistics publications, annual supplement of these trade statistics are also published (see para. 5.5). From 2005 to 2007, the stocks in hand of most of the trade statistics publications were greater than the numbers of publications sold (see Appendix E).**

### *Audit recommendations*

5.8        **Audit has recommended that the Commissioner for Census and Statistics should, in consultation with the regular subscribers, consider stopping the printing of some monthly trade statistics publications, and prepare more accurate forecasts of the number of printed trade statistics publications to save paper and minimise the publication and storage costs.**

### **Response from the Administration**

5.9        The **Commissioner for Census and Statistics** agrees with the audit recommendations. He has said that the C&SD will:

- (a)        upon the implementation of the free download policy of the C&SD as from mid-2006, notification had been given to subscribers of such changes. However, some subscribers continued to renew annual subscriptions in end-2006 and end-2007. The C&SD will further consult both recipients of complimentary copies and subscribers regarding the feasibility of stopping the printing of some trade statistics publications; and
- (b)        increase the frequency of consultation with subscribers and recipients of complimentary copies so that a more accurate printing forecast can be prepared.

### **Performance information**

#### *Guidelines on the reporting of performance information*

5.10        The Financial Services and the Treasury Bureau (FSTB) has issued guidelines on the reporting of performance information in the Controlling Officer's Report (COR). According to FSTB Circular Memorandum No. 14/2005 dated 10 October 2005, for individual programmes, Controlling Officers should focus more on targets when developing their performance measures and ensure that all targets and indicators are clearly stated. Targets should preferably measure outcomes instead of output or input.

5.11        The Guidelines on performance targets and indicators specify that Controlling Officers should:

- (a)        indicate the extent to which the department's operational objectives are being achieved. In general, outcome measures/indicators are preferred;

- (b) provide unit cost or productivity indicators to indicate the extent to which the department is achieving, for example, a greater level of output with a less than corresponding increase in the levels of inputs. Ratios of output to provision and output to staff are likely to be most informative; and
- (c) indicate the levels of service achieved, turnaround times and backlog of work. Performance pledge commitments should be reflected.

To provide stakeholders with a full perspective of the performance results, Controlling Officers are encouraged to show cumulative progress where appropriate. They are also advised to add a short narrative to the key performance indicators to draw attention to any particularly noticeable positive or negative trends.

### *Performance measures of the C&SD*

5.12 According to C&SD 2008-09 COR, there are two types of performance measures (i.e. performance targets and performance indicators) for the programme on trade statistics. The performance targets are shown at Appendix F and the performance indicators are shown in Table 11.

**Table 11**

#### **Performance indicators shown in C&SD 2008-09 COR**

	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Performance indicator</b>	<b>(Actual)</b>	<b>(Actual)</b>	<b>(Estimate)</b>
Import/export declarations checked (million)	19.5	19.7	19.7
Cargo manifests processed (million)	9.6	9.6	9.6
Statistical reports/publications produced	9	9	9
Surveys conducted	4	4	5

*Source: C&SD 2008-09 COR*



*Performance measures of the C&ED*

5.13 According to C&ED 2008-09 COR, there are four performance indicators in respect of the verification and assessment of trade declarations and cargo manifests under the programme on trade controls. The four performance indicators are shown in Table 12.

**Table 12****Performance indicators shown in C&ED 2008-09 COR**

	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Performance indicator</b>	<b>(Actual)</b>	<b>(Actual)</b>	<b>(Estimate)</b>
Import/export declarations processed (million)	19.5	19.7	19.7
Revenue collected (\$ million)	1,289.0	1,408.2	1,411.6
Revenue recovered (\$ million)	7.9	6.8	(Note)
Administrative penalties imposed (\$ million)	20.6	17.0	(Note)

*Source: C&ED 2008-09 COR*

*Note: The Commissioner of Customs and Excise considered that it was not possible to give a reasonable estimate of the performance indicator.*

**Audit observations and recommendations***Need to develop more meaningful performance measures*

5.14 According to 2008-09 CORs of the C&SD and the C&ED, Audit notes that:

- (a) the C&ED has no performance target in respect of the verification and assessment of trade declarations and cargo manifests under the programme on trade controls;
- (b) the C&SD performance targets are mainly work targets of activities in the year. They are not outcome targets measured against output or input to indicate the extent of achievement of the C&SD operational objective; and

- (c) the performance indicators of the C&SD and the C&ED cannot measure the economy, efficiency and cost-effectiveness of the resources deployed as no unit cost or productivity indicator is provided.

5.15 **Audit considers that the C&SD and the C&ED need to develop more meaningful performance measures to indicate the extent of achievement of their operational objective, and indicators to measure their performance in terms of economy, efficiency and effectiveness of the resources deployed. For monitoring the performance of trade statistics and trade controls services, specific performance targets should be set.** According to the Guidelines issued by the Secretary for Financial Services and the Treasury (see paras. 5.10 and 5.11), Audit considers that the following performance measures may be used to measure the performance of the C&SD and the C&ED:

- (a) ***Performance targets.*** The C&ED may include the time standards listed in the TDID work manual as performance targets (e.g. completing a trade declaration verification case and assessment case within three months after allocation, or eight weeks before time limit for proceedings);
- (b) ***Outcome measures/indicators.*** These apply to both the C&SD and the C&ED. Such measures may include the time taken by traders or carriers in submitting trade declarations or cargo manifests for monitoring the timeliness of submissions, and the matching rates of trade declarations and cargo manifests for monitoring the data quality of trade declarations and cargo manifests;
- (c) ***Productivity indicators.*** For the C&SD, these may include the number of trade declarations processed per staff per day, the lead time for cross-checking trade declarations against cargo manifests for each mode of transport, and the processing time for trade declarations and cargo manifests. For the C&ED, these may include the number of verification cases completed per staff per day and the number of assessment cases completed per staff per day;
- (d) ***Level of service achieved.*** These may include performance pledge commitments (e.g. the time taken by the C&SD to issue declaration notices for each mode of transport); and
- (e) ***Backlog of work.*** For the C&ED, these may include the number of verification and assessment cases pending allocation to its officers at the end of the reporting period.

*Audit recommendations*

5.16 To better monitor performance and enhance performance reporting in accordance with the Guidelines issued in the Secretary for Financial Services and the Treasury's Circular Memorandum of October 2005, Audit has *recommended* that the Commissioner for Census and Statistics and the Commissioner of Customs and Excise should consider developing more meaningful performance measures (such as outcome performance targets and performance indicators to measure the economy, efficiency and effectiveness of the resources deployed) to measure the performance of the C&SD and the C&ED in relation to the processing, verification, control and assessment of trade declarations and cargo manifests.

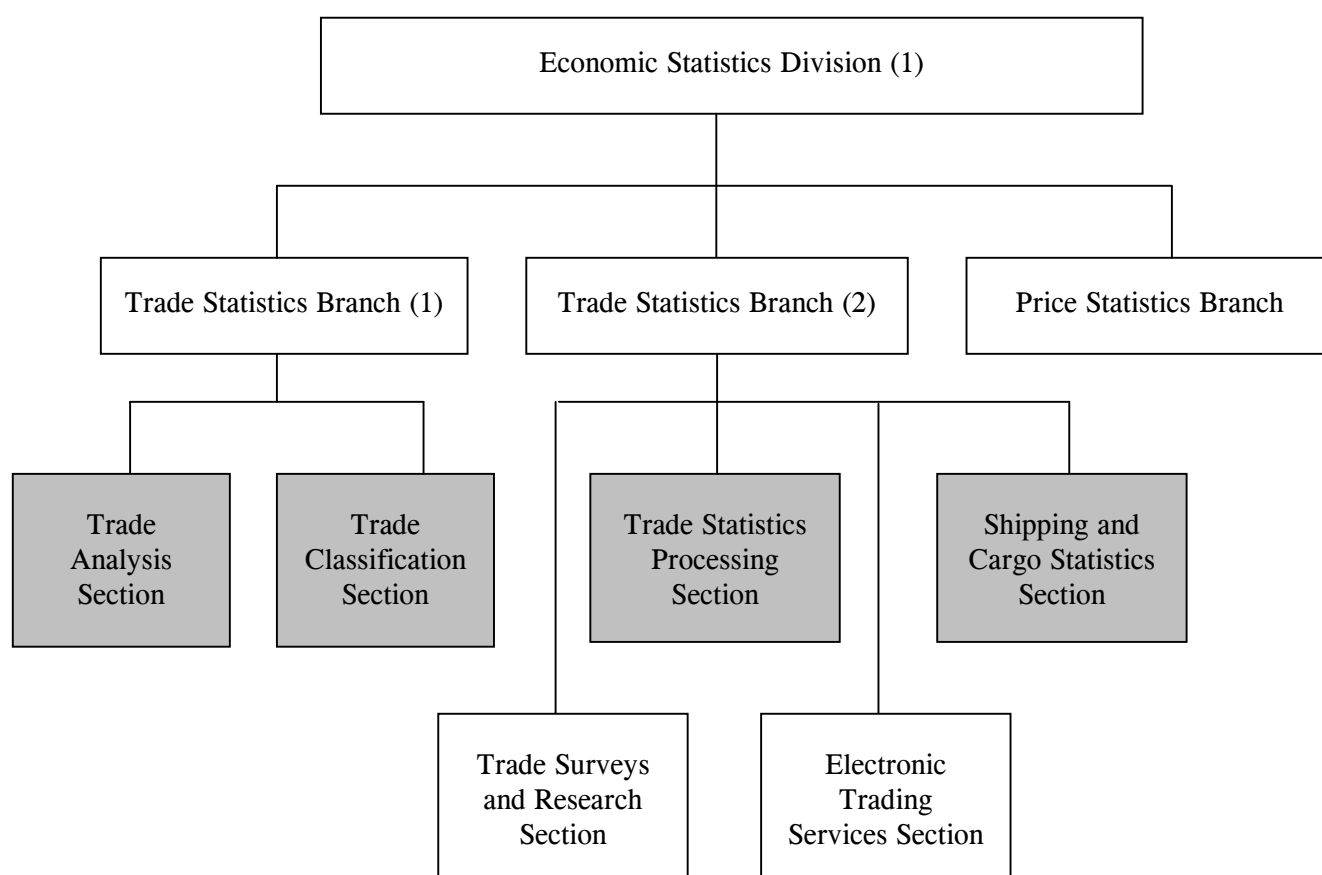
**Response from the Administration**

5.17 The Commissioner for Census and Statistics accepts the audit recommendations. He has said that the C&SD will consider developing outcome performance targets, outcome measures and productivity indicators to measure the economy, efficiency and effectiveness of the resources deployed in relation to the processing, verification, control and assessment of trade declarations and cargo manifests. Such indicators may be subject to influence of various factors, including reporting practice and data quality.

5.18 The Commissioner of Customs and Excise accepts the audit recommendations. He has said that the C&ED will develop performance measures to better monitor the performance of officers in relation to the processing, verification, control and assessment of trade declarations and cargo manifests.

5.19 The Secretary for Financial Services and the Treasury notes the audit recommendations that more meaningful performance measures should be developed to measure the performance of the C&SD and the C&ED in relation to the processing, verification, control and assessment of trade declarations and cargo manifests. In this respect, the FSTB has been issuing circular memorandums to Directors of Bureaux and Controlling Officers on an annual basis reminding them, inter alia, of the need to focus on targets measured in terms of outcome (as opposed to output or input). The circular memorandums have also set out guidelines on drawing up suitable performance targets and indicators in the COR.

**Census and Statistics Department —  
Organisation chart (extract)  
(31 March 2008)**

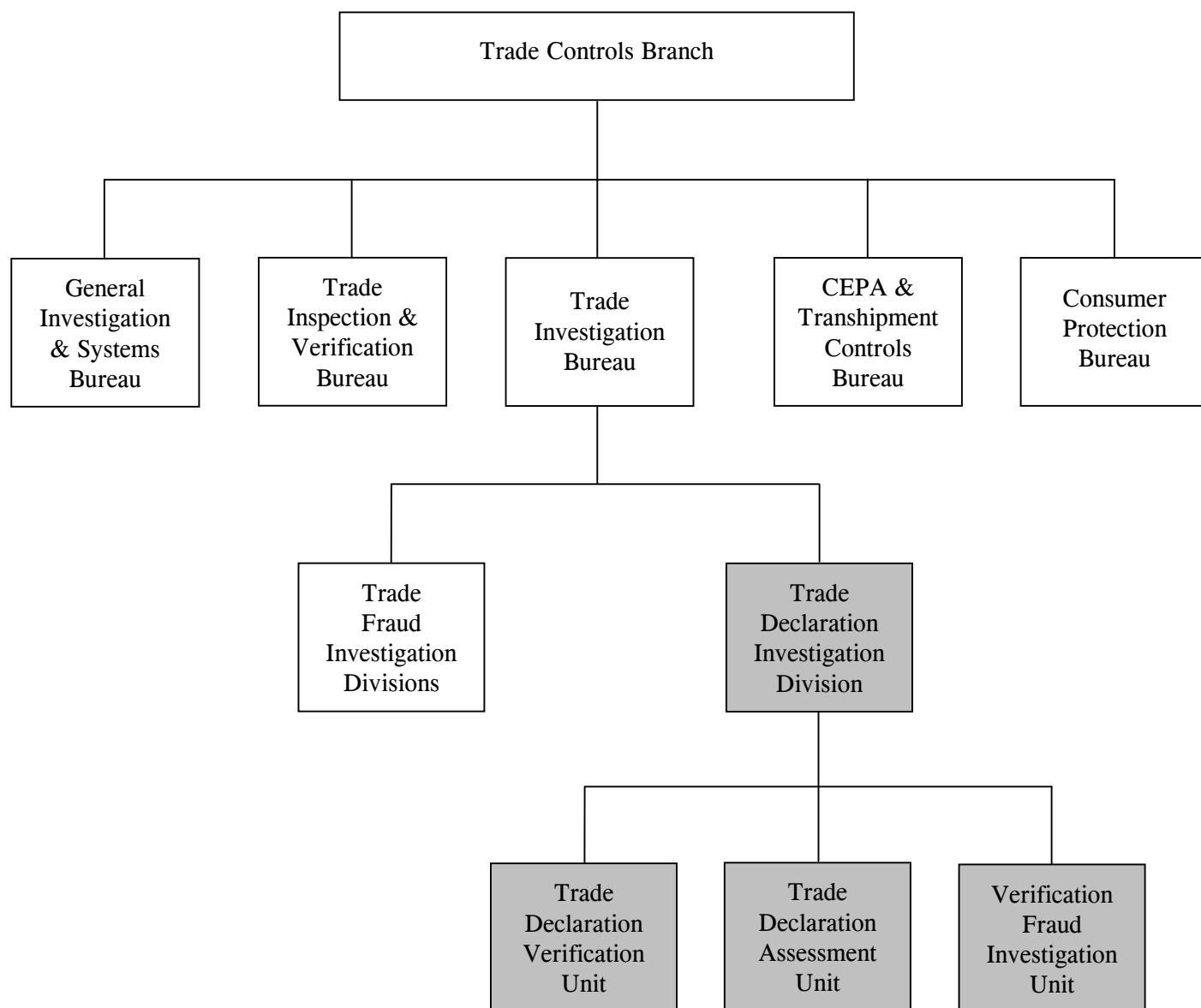


**Legend:**  These sections are responsible for the processing and verification of trade declarations and cargo manifests, and the compilation of trade statistics

**Source:** C&SD records

**Remarks:** As at 31 March 2008, the total staff establishment of the sections responsible for the processing and verification of trade declarations and cargo manifests, and the compilation of trade statistics was 285 (i.e. 14 officers in the Trade Analysis Section, 65 officers in the Trade Classification Section, 189 officers in the Trade Statistics Processing Section and 17 officers in the Shipping and Cargo Statistics Section).

**Customs and Excise Department —  
Organisation chart (extract)  
(31 March 2008)**



Legend:  These units are responsible for the verification, assessment and investigation of trade declarations and cargo manifests

Source: C&ED records

Remarks: As at 31 March 2008, the staff establishment of the Trade Declaration Investigation Division was 50 (i.e. 1 Chief Trade Controls Officer, 4 Senior Trade Controls Officers, 13 Trade Controls Officers, 20 Assistant Trade Controls Officers, 9 Assistant Clerical Officers and 3 Clerical Assistants).

Time of submission of trade declarations  
(2007)

Number (Percentage) of trade declarations

Mode of transport	Within 14 days (Note 1)	Over 14 days to one month and 14 days (Note 1)	Over one month and 14 days to two months and 14 days (Note 1)	After two months and 14 days (Note 1)	Total
	('000)	('000)	('000)	('000)	('000)
Air	8,030.8 (89 %)	528.6 (6 %)	173.9 (2 %)	241.0 (3 %)	8,974.3 (100 %)
Ocean	3,941.0 (85 %)	413.4 (9 %)	136.5 (3 %)	122.7 (3 %)	4,613.6 (100 %)
River	445.4 (89 %)	30.3 (6 %)	10.0 (2 %)	14.3 (3 %)	500.0 (100 %)
Rail	12.8 (87 %)	1.2 (8 %)	0.5 (3 %)	0.3 (2 %)	14.8 (100 %)
Road	4,692.3 (86 %)	447.1 (8 %)	146.7 (3 %)	171.0 (3 %)	5,457.1 (100 %)
Others (Note 2)	210.7 (87 %)	18.4 (8 %)	6.4 (3 %)	5.4 (2 %)	240.9 (100 %)
<b>Total</b>	<b><u>17,333.0 (88%)</u></b>	<b><u>1,439.0 (7%)</u></b>	<b><u>474.0 (2%)</u></b>	<b><u>554.7 (3%)</u></b>	<b><u>19,800.7 (100%)</u></b>

Source: C&SD records

Note 1: The dates referred to submission dates after the importation or exportation of the declared goods.

Note 2: Others referred to trade declarations regarding goods carried by hand or delivered through the Post Office.

**Time of submission of cargo manifests  
(2007)**

**Number (Percentage) of cargo manifests**

<b>Mode of transport</b>	<b>Within 14 days (Note)</b>	<b>Over 14 days to one month and 14 days (Note)</b>	<b>Over one month and 14 days to two months and 14 days (Note)</b>	<b>After two months and 14 days (Note)</b>	<b>Total</b>
Air	244,925 (96.4%)	8,458 (3.3%)	462 (0.2%)	161 (0.1%)	254,006 (100%)
Ocean	31,019 (31.0%)	50,578 (50.5%)	10,732 (10.7%)	7,838 (7.8%)	100,167 (100%)
River	75,735 (37.3%)	72,398 (35.6%)	24,357 (12.0%)	30,603 (15.1%)	203,093 (100%)
Rail	912 (65.3%)	473 (34.0%)	2 (0.1%)	9 (0.6%)	1,396 (100%)
<b>Total</b>	<b><u>352,591 (63.1%)</u></b>	<b><u>131,907 (23.6%)</u></b>	<b><u>35,553 (6.4%)</u></b>	<b><u>38,611 (6.9%)</u></b>	<b><u>558,662 (100%)</u></b>

*Source: C&SD records*

*Note: The dates referred to submission dates after the arrival or departure of the cargoes.*

*Remarks: Road cargo manifests were submitted by truck drivers upon arrival at or departure from the C&ED customs control points at the border.*

**Appendix E**  
(paras. 5.6 and 5.7 refer)

**Distribution of trade statistics and shipping statistics publications  
(2005 – 2007)**

Title of publication	Complimentary copies			Sold copies			Unsold copies		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
<b>Monthly publications</b>									
Hong Kong Merchandise Trade Statistics – Imports	2,076 69%	2,060 72%	898 50%	434 15%	351 12%	264 15%	490 16%	469 16%	638 35%
Hong Kong Merchandise Trade Statistics – Domestic Exports and Re-exports	2,076 69%	2,060 72%	846 47%	390 13%	311 11%	250 14%	534 18%	509 17%	<b>704</b> <b>39%</b>
Hong Kong External Merchandise Trade	3,897 81%	3,792 81%	1,085 56%	653 14%	508 11%	<b>381</b> <b>20%</b>	<b>247</b> <b>5%</b>	392 8%	476 24%
Hong Kong Merchandise Trade Index Numbers	1,812 73%	1,810 75%	871 69%	135 6%	<b>93</b> <b>4%</b>	59 5%	523 21%	497 21%	326 26%
<b>Annual publications</b>									
Hong Kong Merchandise Trade Statistics – Imports (Annual Supplement)	222 63%	220 71%	105 70%	42 12%	39 13%	24 16%	86 25%	51 16%	21 14%
Hong Kong Merchandise Trade Statistics – Domestic Exports and Re-exports (Annual Supplement)	218 62%	216 70%	102 68%	40 12%	38 12%	24 16%	92 26%	56 18%	24 16%
Annual Review of Hong Kong External Merchandise Trade	414 78%	251 72%	120 52%	40 8%	29 8%	11 5%	76 14%	70 20%	99 43%
<b>Quarterly publication</b>									
Hong Kong Shipping Statistics	715 60%	712 59%	313 44%	292 24%	231 19%	166 23%	193 16%	257 22%	241 33%

Source: C&SD records



**Appendix F**  
(para. 5.12 refers)

**Performance targets of the Census and Statistics Department  
(2008-09)**

	<b>Target</b>	<b>2006 (Actual)</b>	<b>2007 (Actual)</b>	<b>2008 (Plan)</b>
Provision of statistics requiring simple action (working days)	0.5 (Note 1)	0.2	0.2	0.2
Provision of photocopies or softcopies containing detailed information upon receipt of a firm order (working days)	2.5 (Note 2)	2	2	2
Assistance in completion of import/export declarations or cargo manifests:				
• simple enquiries by telephone or personal visit (minutes)	5	4	4	4
• complex enquiries by telephone or personal visit (working days)	1.5 (Note 3)	1	1	1
• written enquiries (working days)	2	1	1	1
Time after reference period for release of monthly trade statistics (weeks)	4	4	4	4

*Source: C&SD 2008-09 COR*

*Note 1: Target changes from 1 to 0.5 working day in 2008.*

*Note 2: Target changes from 3 to 2.5 working days in 2008.*

*Note 3: Target changes from 2 to 1.5 working days in 2008.*

## Acronyms and abbreviations

Audit	Audit Commission
BPR	Business process re-engineering
C&ED	Customs and Excise Department
C&SD	Census and Statistics Department
CEDB	Commerce and Economic Development Bureau
CITB	Commerce, Industry and Technology Bureau
COR	Controlling Officer's Report
CPP	Compliance Promotion Programme
EDI	Electronic data interchange
EMAN system	Electronic data interchange system for cargo manifests
FC	Finance Committee
FSTB	Financial Services and the Treasury Bureau
ITSD	Information Technology Services Department
NFA	No further action
OGCIO	Office of the Government Chief Information Officer
PIDR	Post Implementation Departmental Return
PIR	Post Implementation Review
TCS	Trade Classification Section
TDAU	Trade Declaration Assessment Unit
TDID	Trade Declaration Investigation Division
TDVU	Trade Declaration Verification Unit
Tradelink	Tradelink Electronic Commerce Limited
TVU	Trade Verification Unit