

Report No. 51 of the Director of Audit — Chapter 7

PROCESSING AND CONTROL OF TRADE DECLARATIONS AND CARGO MANIFESTS

Summary

1. 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 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. The Customs and Excise Department (C&ED) is responsible for enforcing the legislation relating to trade declarations and cargo manifests. The Commissioner of Customs and Excise has authorised the officers of the Census and Statistics Department (C&SD) to process trade declarations submitted by traders and cargo manifests submitted by carriers. 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. In 2007-08, the total amount of declaration charges was \$1,279 million. 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 their processing by the C&SD and the C&ED.

Electronic lodgement of trade declarations and cargo manifests

2. *Lodgement of trade declarations and cargo manifests through electronic data interchange.* In April 2000, the electronic lodgement of trade declarations through electronic data interchange (EDI) was made mandatory. The electronic lodgement of cargo manifests through the EDI system for cargo manifests (i.e. EMAN system) was made mandatory for air and rail modes in July 2004, and for ocean and river modes in June 2006. The EMAN system was enhanced to streamline, automate and integrate the processes and systems relating to cargo clearance and manifest processing. In January 2006, the enhanced EMAN system commenced operation.

3. *Guidelines on Post Implementation Review.* Commerce, Industry and Technology Bureau 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 to ensure that the Government's investment has attained its intended objectives in a timely and cost-effective way. The PIDR should indicate whether a Post Implementation Review (PIR) is recommended. The guidelines of the Office of the Government Chief Information Officer (OGCIO), issued in March 2006, help user bureaux/departments in deciding whether to initiate a PIR.

4. ***Need to ensure the full disclosure of all items in the PIDR.*** Audit noted that the PIDR for the enhanced EMAN system did not mention: (a) whether the recommendations of the business process re-engineering study conducted for back-end processing of sea, air and rail cargo manifests had been implemented; and (b) that the envisaged benefit of shortening the time taken in issuing declaration notices (arising from the reduction of the processing time for trade declarations) had not been realised. *Audit has recommended that the Secretary for Commerce and Economic Development and the Commissioner for Census and Statistics should ensure the full disclosure of all items in the PIDR in accordance with the OGCIO guidelines.*

5. ***Need to initiate a PIR.*** Audit found that the Commerce and Economic Development Bureau (CEDB) did not recommend a PIR for the enhanced EMAN system notwithstanding that the envisaged benefit of reducing the processing time for trade declarations from 2.6 months to less than one month had not been realised. In September 2008, the CEDB informed Audit that it 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. *Audit has recommended that the Secretary for Commerce and Economic Development and the Commissioner for Census and Statistics should work towards the target of reducing the processing time for trade declarations to less than one month.*

6. ***Timeliness of submission of cargo manifests.*** Audit found that, in 2007, over 60% of cargo manifests for the ocean mode and the river mode were not submitted within the statutory time limit of 14 days. *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.*

7. ***House manifests submitted by forwarders.*** Carriers cannot provide the Government with complete house manifest information because some forwarders are unwilling to divulge sensitive house manifest information to them. 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.*

Completeness of trade declarations and cargo manifests

8. ***Non-compliance with the lodgement requirements.*** 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. Audit found that: (a) in 2007, 88% of trade declarations were submitted within 14 days whereas only 63% of cargo manifests were submitted within 14 days; (b) the percentage of unreplied declaration notices increased from

63% in 2003 to 72% in 2007; and (c) from 2003 to 2007, the number of unmatched trade declarations increased by 31%, and the proportion of unmatched trade declarations for the water mode increased from 28% in 2003 to 51% in 2007. *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; and (b) 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.*

9. ***Need to clear the backlog of outstanding declaration notices.*** Audit noted that the number of outstanding declaration notices and manifest advices checked and completed by the Trade Declaration Verification Unit of the C&ED 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. As at 31 March 2008, 1,687,000 outstanding declaration notices had not been assigned to the inspection officers for taking follow-up actions. *Audit has recommended that the Commissioner of Customs and Excise should critically evaluate the cost-effectiveness of deploying additional staff to clear the backlog.*

10. ***Need to strengthen enforcement actions on repeated offenders.*** According to the Compliance Promotion Programme (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. 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. *Audit has recommended that the Commissioner of Customs and Excise should step up prosecution actions on repeated offenders in warranted cases.*

Accuracy of trade declarations

11. ***Need to shorten the processing time.*** The C&SD and the C&ED verify the declared values of goods on the trade declarations to ensure their accuracy. Audit selected 20 cases for examination and found that the time taken by the C&SD in verifying the accuracy of trade declarations was too long. In July 2008, the C&SD informed Audit that it had recently implemented an action plan aiming at completing the verification of trade declaration cases within six months. *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.*

12. ***Verification by the C&ED.*** The C&ED takes follow-up actions on cases referred by the C&SD. Audit selected 20 cases for examination and found that two undervaluation cases were completed after the statutory six-year limit for recovering declaration charges and two cases were erroneously returned to the C&SD as no further action (NFA) cases. *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; and (b) carry out a detailed check of all NFA cases before returning them to the C&SD.*

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

Trade statistics and performance information

14. ***Need to save paper and minimise costs.*** Publications on trade statistics and shipping statistics are mainly issued to government departments, academic institutions and international organisations on a complimentary basis or sold to subscribers and the public. For all but one monthly trade statistics publications, annual supplement of these trade statistics are also published. Audit found that, from 2005 to 2007, only a small portion of the printed monthly publications was sold and the stocks in hand of most of the trade statistics publications were greater than the numbers of publications sold. Audit considers that the printing of monthly trade statistics publications may not be necessary and cost-effective. *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.*

15. ***Need to develop more meaningful performance measures.*** According to 2008-09 Controlling Officer's Reports 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; (b) the C&SD performance targets are mainly work targets of activities in the year; 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. *Audit has recommended that the Commissioner for Census and Statistics and the Commissioner of Customs and Excise should consider developing more meaningful measures to assess 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

16. The Administration agrees with the audit recommendations.

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