**Consolidated response to PAC's questions
on Chapter 8 of the Director of Audit's Report No. 66
Procurement and inventory management of information and
communications technology (ICT) products and services**

This note sets out the response of the Customs and Excise Department (C&ED) to the various questions as set out in the letter dated 12 May 2016 from the Clerk to PAC.

Part 2: Procurement of ICT products and services

Q1: Why did C&ED divided procurement of $2.1 million into two separate purchases in seven days instead of consolidating purchases to achieve better economies of scale? Was the practice of separate purchases of C&ED intended to bypass the financial limits under SPRs that a procurement with an estimated value of over $1.43 million, B/Ds should conduct open tendering given the short interval between each of the separate purchases (paragraph 2.2 refers)? If C&ED considered it necessary to make separate purchases, what were the justifications for supporting C&ED's decisions (paragraph 2.19 refers)?

C&ED has examined the case. It is revealed that two subject procurement requests were processed on different dates for two batches of ICT products. Those purchases were for different purposes and users with various priority levels. Owing to the heavy workload and tight timeframe at the material time near the end of financial year, subject staff did not realize that similar items under the two requests could be combined for open-tender-procurement arrangement. There is no intention to bypass the requirement of open tendering under Stores and Procurement Regulations (SPRs).

C&ED welcomes the recommendation made by the Audit Commission and will consolidate procurement requests of ICT products and services of similar nature. All concerned staff have been reminded to observe the requirements of the SPRs. Staff at a higher level will also conduct a second-tier checking on all procurement requests to ensure compliance of the SPRs.

Part 3: Control of ICT inventories

Q2: Audit found that up to 30 November 2015, 107 (11%) of 1 009 selected ICT inventory items had not been located by the departments concerned. The cost of these missing items amounted to some $451,000, while 32 (30%) of the 107 missing items were embedded with data storage devices (e.g. personal computers) (paragraphs 3.4 to 3.6 refer). Since the loss of data storage devices could be a breach of security according to the Security Regulations, will the Administration inform this Committee about the consequences of the breach (paragraph 3.6 refers)? Of the 107 missing items embedded with data storage devices, whether it is found that sensitive or confidential information was stored in those devices, please provide the details (paragraph 3.6 refers). What remedies have been taken to the parties affected due to the missing data storage devices? As the ICT inventory records of C&ED were not properly kept (paragraph 3.11 refers), what steps have been/will be taken to improve the situation?

Among the 107 missing items of the four departments concerned, only 4 items belonged to C&ED.   On 3 February 2016, C&ED informed the Audit Commission that 2 out of the 4 missing items had been located subsequently (Audit Report, paragraph 3.8 refers).   There was no data storage device embedded in the 2 missing items (i.e. a video camera and a zip drive) and hence no issue of information leakage was involved.   C&ED has already instituted the procedures stipulated in the Financial Circular No. 7/2003 and the SPRs to write off the two missing items accordingly

C&ED has also taken steps to enhance the inventory control of ICT products.   All concerned staff have been reminded to properly keep the inventory records in compliance with the SPRs.   Supervisory checks have been carried out and annual stocktaking will also be properly conducted.

Q3: *While C&ED had a computerized inventory control system, it still largely relied on its manual system for inventory control purposes.   Furthermore, there were large discrepancies between the inventory records of C&ED's computerized inventory control system and those of its manual system (paragraph 3.23 (b) refers).   Will C&ED inform this Committee whether its reliance on the manual system was a result of the lack of familiarity of its staff with the computerized system or due to the complexity of the computerized system?   Has C&ED assessed the amount of time could be saved by using the computerized system compared to the manual system? Will C&ED provide more trainings to its staff and improve the computerized system with a view to maximizing the benefits of the computerized system?   Will C&ED stop using the manual system immediately?   When reconciling the discrepancies between the inventory records in its computerized inventory control system and the manual inventory records, will C&ED accord high priority to input the manual inventory records into its computerized inventory control system?*

Manual system has been an effective system to maintain full inventory records of all government property and stores as required under the SPRs.   In 2010, C&ED developed a pilot computerized system named IT Asset System (ITAS) to strengthen the inventory deployment for six commonly used ICT products (i.e. monitor, workstation, scanner, printer, notebook computer and Blackberry devices).   Given that the manual and pilot computerized system serve not exactly the same purpose with the pilot nature of the latter, C&ED is running the two systems in parallel.

C&ED welcomes the recommendation made by the Audit Commission and will study the feasibility of developing a full-fledged or enhancing the current pilot computerized system to maintain full inventory records of all nature of government property and stores in the long run.   The study will also assess the amount of time could be saved by using computerized system compared to manual system.

C&ED has accorded high priority and deployed additional manpower to reconcile the discrepancies between the manual and computerized inventory records for maintaining the consistency of the records in both systems.

Q4. *The Government Chief Information Officer said C&ED will consult OGCIO and GLD with a view to examining the feasibility of developing a full-fledged computerized inventory control system. Meanwhile, C&ED will enhance the IT Asset System to better support inventory control (paragraph 3.31 refers). In these connections, will C&ED provide a timetable for implementing the tasks? Will the tasks primarily focus on technical aspects? What efforts will be taken by C&ED to enhance a sense, habit and culture of utilizing a computerized inventory control system among its staff members?*

C&ED will consult OGCIO and GLD to study the feasibility of developing a full-fledged computerized inventory control system and include the findings of consultation into a comprehensive Information Systems Strategy Study (ISSS) which is scheduled for 2017 to 2018.

Meanwhile, C&ED is enhancing the ITAS to provide better support for inventory control of ICT products in both technical and business aspects in two phases, which are scheduled for completion by late 2016 and mid-2017 respectively.

C&ED will continue to provide regular training with hand-on practices to staff members on the use of ITAS. We will also collect views from our staff on the future full-fledged computerized inventory control system to be included into the ISSS.

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