



審計署
香港灣仔
告士打道七號
入境事務大樓
二十六樓

Audit Commission
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

圖文傳真 Facsimile : 2583 9063

電話 Telephone : 2829 4251

本署檔號 Our Ref. : UB/PAC/ENG/39-3

來函檔號 Your Ref. CB(3)/PAC/R39

28 January 2003

Miss Sandy Chu
Clerk, Public Accounts Committee
Legislative Council
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear Miss Chu,

**The Director of Audit's Report on the
results of value for money audits (Report No. 39)**

**Chapter 2: The Customs and Excise Department's efforts
to protect government revenue from dutiable commodities**

Thank you for your letter of 22 January 2003, inviting me to comment on the contents of the Commissioner of Customs and Excise's letter of 15 January 2003, in particular the practicability of the five-second requirement in the light of the new licence conditions for the duty-free shops.

Audit visit to Lo Wu on 24 January 2003

The new licence conditions have been implemented with effect from 1 January 2003. To obtain a better understanding of the implementation, Audit staff visited the Lo Wu Control Point on 24 January 2003, interviewed the Customs Officer-in-charge and, in his presence, observed on the spot how the revised conditions were applied in practice. Audit staff also obtained for scrutiny a copy of the new Procedural Guidelines, referred to in paragraph 3 of the Commissioner's letter, which supplement the licence conditions to help the licensee comply with the new licence conditions.

Audit findings

Based on the findings during the visit, I have come to the view that, in terms of practicability, the new licence conditions represent a significant improvement over the previous ones. My main findings are as follows:

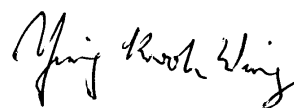
- (a) according to the new licence conditions (supplemented by the Procedural Guidelines), the licensee needs not ascertain the status of the customers if their purchases do not exceed the duty-free concessions for local residents. Audit notes that for these purchases, which constitute the vast majority of the transactions, it is possible for the sales staff to complete a transaction in five seconds;
- (b) if a customer's purchase exceeds the duty-free concession for local residents but does not exceed that for visitors, before selling the goods to him, the licensee is required to ask the customer to prove his visitor status. While it may take more than five seconds to complete the transaction, in Audit's view, this process is necessary to help prevent abuses of duty-free concessions; and
- (c) if a customer's purchase exceeds the duty-free concession applicable to his resident status, the customer concerned will be asked to go to the Customs' Duty Payment Office to pick up the goods. The dutiable goods will then be delivered to the Duty Payment Office and handed over to the customer in the presence of a Customs Officer. The purpose of this arrangement is to ensure that duties are duly assessed and collected. According to the Customs Officer in charge of the Lo Wu Control Point, the whole process could take about ten minutes to complete, but so far there had not been any such a transaction. Despite the much longer time required to complete the transaction, in Audit's view, this process is necessary for the proper assessment and collection of government revenue.

Conclusion

The new licence conditions (supplemented by the Procedural Guidelines) should reduce the risks of abuses of duty-free concessions at source. However, strict compliance with items (b) and (c) above is necessary to ensure the effectiveness of the new procedures. **The Public Accounts Committee may wish to urge the Commissioner of Customs and Excise:**

- (a) **to closely monitor the sales activities at the Lo Wu duty-free shops to ensure compliance with the new procedures; and**
- (b) **to conduct a comprehensive post-implementation review of the new procedures at an appropriate time (say in three months' time) and report the result to the Committee.**

Yours sincerely,



(YING Kwok-wing)
for Director of Audit