The Auditor-General
Audit Report No.15 2011–12
Performance Audit

Risk Management in the Processing of Sea and Air Cargo Imports

Australian Customs and Border Protection Service

Australian National Audit Office

ISSN 1036–7632

ISBN 0 642 81220 9

Executive Director
Corporate Management Branch
Australian National Audit Office
19 National Circuit
BARTON ACT 2600

Or via email:
webmaster@anao.gov.au

Australian National Audit Office

Canberra ACT
30 November 2011

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Australian Customs and Border Protection Service in accordance with the authority contained in the Auditor-General Act 1997. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit, and the accompanying brochure, to the Parliament. The report is titled Risk Management in the Processing of Sea and Air Cargo Imports.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: **(02) 6203 7505**
Fax: **(02) 6203 7519**
Email: **webmaster@anao.gov.au**

ANAO audit reports and information about the ANAO are available at our internet address:

http://www.anao.gov.au

Audit Team
Julian Mallett
Kate Cummins
Tom Clarke

Contents

Tables

Figures

Abbreviations

AQIS	Australian Quarantine and Inspection Service
ATO	Australian Taxation Office
CBSA	Canada Border Services Agency
CEO	Chief Executive Officer
CIS	Cargo Intervention Strategy
CRA	Compliance Risk Analyst
CRSAC	Cargo Report Self-assessed Clearance
Customs Act	*Customs Act 1901*
DRRM	Differentiated Risk Response Model
EXAMS	Examination Data Management System
FID	Full Import Declaration
GST	Goods and Services Tax
HVLV	High Volume Low Value
ICS	Integrated Cargo System
INS	Infringement Notice Scheme
NPC	National Profiling Centre
NPP	New Policy Proposal
PI Regulations	*Customs (Prohibited Imports) Regulations 1956*
WCO	World Customs Organization

Summary and Recommendations

Summary

Introduction

1. Australia's border is a complex environment. The majority of people and goods entering and leaving the country pose no threat. However, the entry of some people and goods into Australia do present risks. These can take the form of major threats–such as those posed by the entry of terrorists and illicit drugs–to more moderate threats such as the non-payment of customs duty and the importation of restricted goods without the appropriate permit.[1]

2. Working closely with other government and intelligence agencies, the role of the Australian Customs and Border Protection Service (Customs and Border Protection) is to facilitate legitimate trade and travel while seeking to identify and target those people and goods that present a risk of contravening the laws designed to protect our borders. It is also responsible for collecting customs duty and border-related taxes and charges, which totalled $9.6 billion in 2010–11.[2] As at 30 June 2011, Customs and Border Protection employed 5 674 staff in Australia and overseas, supported by surveillance and intelligence systems.

The import process

3. All cargo[3] arriving in Australia is subject to customs control and cannot be released into 'home consumption' without Customs and Border Protection's permission.[4] All those involved in the importation of cargo are required by law to provide Customs and Border Protection with a variety of reports prior to, at, and following the arrival of the aircraft or vessel and the actual

---

1 There is a large range of goods which governments have decided should either be prohibited from entering Australia altogether under any circumstances or which have legitimate uses but in respect of which a permit is required at the time of importation to ensure that they are not misused (such as tablet presses).

2 A number of different currencies are used in this report. Where amounts are in Australian dollars (or have been converted into Australian dollars), they are expressed as, for example, $1000. Where they are in foreign currencies, the International Standards Organisation currency code is used (such as EUR 1000 or USD 1000).

3 For the purposes of this report, references to 'cargo' encompass goods that are subject to Customs controls.

4 'Home consumption' means that the goods enter into the commerce of Australia.

importation of the cargo.[5] Cargo reports, which include a description of the cargo, must be input electronically into Customs and Border Protection's Integrated Cargo System (ICS) not less than 48 hours before arrival for sea cargo, and not less than two hours for air cargo. This allows Customs and Border Protection to commence risk assessing the cargo before it has actually arrived.

4. A formal declaration relating to the cargo can be made by the owner, including an importer or a broker on their behalf, by providing either a Self Assessed Clearance (SAC) Declaration (for consignments with a value of $1 000 or less) or a Full Import Declaration (FID). These declarations provide additional information about the cargo and may either be given a 'held' status if Customs and Border Protection wish to obtain more information or examine the cargo, or a 'clear' status. Cargo that receives a 'clear' status can be released once all customs duty and border-related taxes and charges have been paid. In 2010–11, there were 13.9 million air and 2.3 million sea cargo consignments reported.

Customs and Border Protection's Regulatory Philosophy

5. Customs and Border Protection's Regulatory Philosophy recognises that the majority of individuals and entities involved in the importation of cargo intend to comply with regulatory requirements and should be permitted to operate in a self-assessed environment with minimal or no intervention. It recognises that there is a compliance continuum ranging from importers who comply with border-related legislative requirements, through to those who inadvertently fail to comply, to serious criminals who actively seek to evade border controls. Thus, Customs and Border Protection measures its success in terms of the proportion of cargo that passes unimpeded through the import process as well as the number and type of prohibited or restricted goods detected and revenue collected.[6]

6. Customs and Border Protection describes its approach to managing the flow of sea and air cargo imports as 'intelligence-led and risk-based'. This

[5] This can include airlines, shipping companies, air express couriers, freight forwarders and consolidators, aircraft and vessel owners, customs brokers and owners of cargo.

[6] Customs and Border Protection's annual *Time Release Study 2009* showed that 79 per cent of sea cargo and 71 per cent of air cargo were risk assessed prior to arrival and allowed to pass without impediment.

approach is aimed at assessing the risks that prohibited or restricted goods present at the border, and designing ways to treat these risks that are commensurate with the level of the risk and the resources available.

Customs and Border Protection's risk management framework

7. In the Customs and Border Protection context, risks primarily relate to protecting Australia from the unauthorised entry of prohibited and restricted goods.[7] Prohibited goods such as illicit drugs and terrorism-related goods pose the highest risks and the appropriate treatment is to detect them in the cargo stream and intercept them at the border, so that they do not enter the country. The importation of some other prohibited and restricted goods, and the short-payment of customs duty present a lower level of risk to the community and can reasonably be dealt with at the border or after importation.[8]

8. Customs and Border Protection's border management approach is 'intelligence-led and risk-based'. This means using intelligence-led risk management processes, including advanced analytical techniques and tools, that allow Customs and Border Protection to focus on high-risk goods. In simple terms, risks are assessed according to the likelihood of an event occurring (such as the undetected importation of illicit drugs) and the severity of the consequence if the event occurs. Consistent with the international standard, Customs and Border Protection uses risk matrices to categorise the risks it has identified. This assessment is important in determining the level of resources to be applied to risk mitigation strategies aimed at preventing, deterring, detecting and disrupting the movement of prohibited and restricted goods across the border. Within Customs and Border Protection, risks are assessed and managed at three levels: strategic, operational and tactical.

9. Strategic risks are the high-level, whole-of-agency border risks articulated in Customs and Border Protection's Annual Plan and Annual Risk Plan, as well as the Government's broader Strategic Border Management Plan. These risks are: terrorism; the unauthorised or irregular movement of people;

---

[7] Risk is defined as 'the effect of uncertainty on the achievement of objectives'. (International Standards Office ISO 31000:2009 *Risk management–principles and guidance)*.

[8] Border Targeting Branch is responsible for the highest risk areas of illicit drugs, precursors and terrorism. Trade Policy and Regulation Branch has policy responsibility for the remaining prohibited and restricted goods and Compliance Assurance Branch manages cargo control and revenue collection risks.

biosecurity threats; the movement of prohibited and restricted goods; unlawful activity in the maritime zone; and the non-payment of border-related revenue (customs duty, taxes and charges).

10. After strategic risks have been identified and risk mitigation strategies developed[9], the implementation of these strategies is undertaken at the operational level through the Cargo Intervention Strategy (CIS) and the application of the Differentiated Risk Response Model (DRRM). At the border, profiles and alerts are the tactical risk management tools used to identify at-risk consignments for inspection and examination.

Identifying high-risk air and sea cargo imports

11. Profiles identify broad risks or sets of risk indicators and are based on intelligence either developed within Customs and Border Protection or passed to it by other agencies such as the Australian Federal Police. Alerts are entity-specific but are also generally intelligence–based. In 2010–11, the Integrated Cargo System (ICS) contained 2 394 profiles and alerts, which led to two million 'matches'. When import data matches a profile or alert, an officer (known as a profile owner) is alerted electronically and must decide whether the cargo requires further inspection or examination to ascertain its contents.[10]

Responding to air and sea cargo import risks

12. There has been considerable change in recent years in the way Customs and Border Protection plans for, and responds to, identified risks. In July 2009, Customs and Border Protection introduced a new Cargo Intervention Strategy. This strategy maintained the practice of examining all cargo identified as high-risk but reduced the number of planned inspections by 76 per cent for air cargo imports and 24 per cent for sea cargo imports.[11] As a result, 63 fewer staff were allocated to sea and air cargo inspections and examinations. Detections in

---

[9] Risk mitigation strategies can range from educating people about their obligations to comply with border legislation, the imposition of financial penalties to the seizure of goods, prosecution and imprisonment.

[10] Customs and Border Protection defines intervention as 'use of any or all processes, including risk assessment, inspection and examination, in order to prevent the import or export of prohibited items and to control the movement of restricted items. Inspections may include the use of detector dogs, non-intrusive examination through the use of x-ray technology (static or mobile), trace particle detection or a physical examination of the cargo'. Examinations are defined as the 'physical examination of the cargo by a Customs officer'.

[11] Air cargo inspections decreased from 6.2 million in 2008–09 to 1.5 million in 2010–11 and sea cargo inspections decreased from 134 000 in 2008–09 to 101 500 in 2010–11.

sea and air cargo covering the period 2008–09 to 2010–11 are outlined in Table S 1.

Table S 1

Detections of prohibited and restricted goods 2008–09 to 2009–10

	Air cargo detections	Sea cargo detections	Total
2008–09	1 495	780	**2 275**
2009–10	1 557	757	**2 314**
2010–11	1 741	564	**2 305**

Source: Customs and Border Protection.

Notes: Customs and Border Protection defines detections as 'any examination result determined to be a breach of Customs related law at the time of examination'.

Excludes referrals of potential quarantine items to the Australian Quarantine and Inspection Service (AQIS).

13. In July 2010, compliance activity also moved towards a more risk-oriented, transaction-based approach through the implementation of the new Differentiated Risk Response Model (DRRM). A broader range of treatments was also adopted, including education, campaigns, pre-clearance monitoring and intervention, 'saturation' exercises and more focused field audits and visits.[12] The implementation of the DRRM saw a reduction in the resourcing levels (24 staff) of Compliance Assurance Branch.

Audit objective, scope and criteria

14. The objective of the audit was to assess Customs and Border Protection's use of risk management to assist in the processing of sea and air cargo imports.

15. The audit sought to determine whether Customs and Border Protection:

- has a soundly-based risk management model to support its management of the processing of sea and air cargo imports;

[12] Campaigns are national planned programs of activity aimed at testing assumptions about the level, extent or severity of risks. Pre-clearance monitoring includes checking a random selection of import declarations and, if necessary, seeking additional or clarifying documentation before the goods are released. Saturation exercises involve a tightly-focused short term activity and may involve, for example, screening all packages from a single airline flight.

- uses risk management to determine cargo intervention and compliance activities; and
- supports risk management strategies with appropriate compliance measures.

16. International mail was not within the scope of the audit but has been listed as a potential audit in the ANAO's 2011 Audit Work Program.

Overall conclusion

17. Achieving a balance between facilitation and control in managing sea and air cargo imports into Australia is a challenging task for Customs and Border Protection, particularly against a background of increasing cargo volumes. In 2010–11, there were a total of 16.2 million sea and air cargo imports[13] and Customs and Border Protection has estimated that by 2020 this figure will rise to around 27 million. To inspect and/or examine all consignments would be a costly, resource-intensive and time-consuming exercise for Customs and Border Protection and importers. As this approach is neither desirable nor practical, it is essential that those consignments that present the highest border security risk are identified and dealt with appropriately.

18. Customs and Border Protection effectively uses risk management strategies to process sea and air cargo imports. The agency has a sound risk management framework with mature strategic and operational risk assessment and planning arrangements that are underpinned by a well-developed set of system-based profiles and alerts. Customs and Border Protection employs a number of cargo intervention and compliance strategies to mitigate identified risks. These strategies range from education through to audits of importers and the seizure of goods as well as other tools, such as administrative penalties. Customs and Border Protection has enhanced its risk management arrangements over time and, more recently, has developed a multi-year planning and budgetary framework to align decisions on resource allocation with the assessment of organisational and border-related risks.

19. The majority of sea and air cargo imports pass unimpeded across Australia's border. However, assessing the effectiveness of Customs and

[13] These comprised 13.9 million air and 2.3 million sea cargo import consignments.

Border Protection's risk management strategies is difficult. While Customs and Border Protection is able to measure the volume and number of prohibited and restricted goods it detects and seizes, it is difficult to know the proportion of these goods that cross Australia's border undetected. In the face of this uncertainty, accepted practice is for agencies to assess the effectiveness of their intervention and compliance strategies and risk assessment processes, and refine their approach in the light of experience. For Customs and Border Protection, this means evaluating its profiles and alerts and assessing the effectiveness of the CIS and the DRRM approach to compliance.

20. Profiles and alerts are Customs and Border Protection's primary risk management tools. The design, testing and implementation of profiles have been substantially strengthened in recent years, including through the establishment in 2008 of a centralised National Profiling Centre. However, Customs and Border Protection has been slow to evaluate the effectiveness of its profiles and alerts, which the ANAO first identified as important in 2002. Three reviews in 2009 and 2010 have led Customs and Border Protection to introduce a Profile Governance Board and, in July 2011, to develop a Profile Effectiveness Review implementation plan.[14] These recent initiatives are designed to enable Customs and Border Protection to assess whether its cargo profiles and alerts are identifying at-risk sea and air cargo imports.

21. Customs and Border Protection's Cargo Intervention Strategy (CIS) was introduced in July 2009 and places greater emphasis on the use of intelligence to identify high-risk consignments and to reduce the number of inspections and examinations that produce a nil result. Since 1 July 2009, the implementation of the CIS has seen a substantial reduction in the annual number of inspections (76 per cent in air cargo and 24 per cent in sea cargo) as air cargo is no longer being mass screened. As shown in Table S 1, the number of detections of prohibited and restricted goods in air cargo increased in 2009–10 by four per cent and increased by a further 12 per cent in 2010–11. For sea cargo, there was a slight (three per cent) decrease in 2009–10 followed by a decrease of 25 per cent in 2010–11. Whilst Customs and Border Protection sees detections as an important measure of success, assessing the effectiveness of

[14] The Profile Governance Board will be responsible for standardising procedures across the agency, assessing the overall effectiveness of profiles and alerts and ensuring that new profiles and alerts reflect identified changes in risks.

the CIS will also require analysis of profiles and alerts data, and inspection and examination outcomes, and their interrelationships.

22. Customs and Border Protection introduced the Differentiated Risk Response Model in July 2010 to streamline and target its compliance intervention strategies. The new model reduces the emphasis previously placed on intensive audits of importers to the use of a broader suite of more risk-oriented compliance activities. These include education and saturation exercises[15] in addition to focused audits. With 2010–11 being a transitional year, it is not possible to reliably compare the outcomes of the new model with previous years.

23. To both encourage compliance and to discourage non-compliance, Customs and Border Protection introduced an administrative penalties regime in 1989. The scheme was replaced in 2002 by the Infringement Notice Scheme (INS).[16] The INS process is considered to be difficult, time-consuming and cumbersome and Customs and Border Protection has made infrequent use of the scheme. On average, during the period July 2007 to June 2010, just over six penalties per month were issued for a total penalty amount of $273 877. This is in contrast to a similar scheme operating in Canada where an average of more than 660 penalties per month were issued over the same period for a total penalty amount in excess of $27 million.[17] In an environment of increasing imports and reduced resourcing for intervention activity, a review of the appropriateness of the current INS is warranted.

24. Each year, Customs and Border Protection estimates customs duty and GST revenue leakage (that is, the difference between what should be collected and what is actually collected). However, it does this for one segment of the importing population only: those importers that are considered to be

---

15 Saturation exercises are tightly-focused short term activities and may involve, for example, screening all packages from a single airline flight.

16 Where an error or omission results in the short-payment of customs duty, the penalty is 20 per cent of the short-paid duty. For errors or omissions not resulting in a short-payment, the penalties range from $55 to $1 320.

17 While Canada has imports arriving by road and rail in addition to sea and air, the overall volume of imports is similar: in 2009–10, Canada had 11.9 million imports of all types compared with 13.6 million for Australia in the same period.

The comparison period is July 2007 to June 2010 because 2010–11 Canadian data was not available. In 2010–11, the number of penalties issued by Customs and Border Protection increased to 338 (or an average of 28 per month) with a total penalty amount of $338 573.

'compliant'. Focusing these estimates on compliant importers only makes it difficult to compare the leakage estimates with the additional revenue Customs and Border Protection actually detects and collects. If this estimate is to be reliable, the sampling methodology should include all import populations, the approach Customs and Border Protection adopted for several years.

25. An emerging compliance risk facing Customs and Border Protection is Self Assessed Clearance Declaration importations. With the increase in online shopping, the number of goods being imported with a declared value of $1000 or less has more than tripled in the past five years to 10.5 million in 2010–11. These importations are exempt from the payment of customs duty and GST, and require less detailed information to be provided. The vast majority of these consignments are brought into the country by air express couriers whose business model places a premium on speedy delivery to customers. The ANAO's analysis identified numerous SACs that, on the face of the available evidence, presented elevated risks for the importation of potentially prohibited or restricted goods and revenue evasion.[18] Furthermore, often poor data quality compromises Customs and Border Protection's ability to use profiles and alerts to effectively identify at-risk SACs for closer scrutiny. A review of SAC processing arrangements would allow Customs and Border Protection to better assess the risks associated with this import stream.

26. The ANAO has made three recommendations aimed at improving Customs and Border Protection's use of penalties as a compliance improvement tool, its revenue leakage estimation and the management of the risks associated with SACs.

[18] For example, in 2010, there were more than 1.2 million consignments with a declared value of less than $10 (not including legitimately low-value goods such as business and personal documents). From a sample of approximately 1.3 million SAC transactions analysed by the ANAO, there were 2 194 consignments described as 'new mobile phones', all with a declared value of $0, 26 798 consignments described as 'garments' with a declared value of less than $10 and 42 consignments described as DHEA (a restricted anabolic steroid) which were not intercepted.

Key findings

Development of the risk management framework and risk plans

27. In 2008, in conjunction with the other border agencies, Customs and Border Protection participated in the development of a Strategic Border Management Plan. Customs and Border Protection also reviewed its risk management arrangements to better integrate border risk management practices within an enterprise risk management framework.

28. Customs and Border Protection's risk management framework covers all levels of risk–strategic, operational and tactical–and works to appropriately integrate these levels. Strategic risk planning in Customs and Border Protection is undertaken at the corporate level and the overall responsibility for risk management in the agency rests with the Chief Risk Officer (who is also the Chief Operating Officer) who chairs the Customs and Border Protection Risk Committee and reports to the Chief Executive Officer. The risk management framework is consistent with both the World Customs Organization's Risk Management Guide and the International Risk Management Standard. While the overall risk management framework is effective, more work remains to be done, particularly in relation to the development of risk reporting templates[19] and linking the risk management process with the resource allocation process. Customs and Border Protection intends that this work will be completed by 2012–13.

29. Operational risk planning is effectively undertaken by the Border Targeting, Compliance Assurance and Trade Policy and Regulation Branches. This planning forms the basis of Customs and Border Protection's cargo interventions and compliance management strategies which are delivered through the Cargo Intervention Strategy and the Differentiated Risk Response Model.

Identifying high-risk air and sea cargo using profiles and alerts

30. Customs and Border Protection uses profiles and alerts extensively and, at any given time, there are approximately 2 500 profiles and alerts in the ICS. Profiles and alerts are triggered by matches to a range of import documents and are considered in conjunction with other information to identify high risk

[19] In order to standardise the format and content of reports relating to each major risk area.

sea and air cargo. Technical analysis by the ANAO confirmed that all sea and air cargo reports are 'run' against these profiles and alerts.

31. Customs and Border Protection has established a National Profiling Centre to manage the creation, testing and implementation of profiles. There are well-documented processes for profile and alert creation and approval and they are subjected to robust testing in a test environment before being released into production.

32. Profile owners are responsible for creating profiles and alerts. They are also expected to monitor the day-to-day performance of these profiles and alerts by deleting or modifying a profile or alert that is resulting in a large number of unsuccessful matches and examinations or is due to expire. However, there is only limited guidance and system reminders to assist staff to monitor profiles.

33. The inspection or examination of goods can take the form of an x-ray of the consignment or the container in which the goods are located or physical opening and examination of containers or parcels. Inspections or examinations are labour-intensive, particularly where an entire container needs to be unpacked. With more than two million profile and alert matches in 2010–11, resulting in the inspection and examination of 101 900 TEU[20] and almost 1.5 million air cargo consignments, it is important that Customs and Border Protection monitors and evaluates the effectiveness of its profiles and alerts to minimise, as far as possible, inspections and examinations that yield no result. While comprehensive profile data is not readily available, analysis by Customs and Border Protection showed that for one cohort of profiles (air cargo), in one eight-month period, there were 35 profiles that triggered some 240 000 matches, leading to 10 000 physical examinations, for just 18 positive results.

34. In six previous audit reports between 2002 and 2007, the ANAO had expressed concern (and made recommendations) about the lack of an effective mechanism to strategically evaluate the performance of profiles and alerts across all areas which use them. Progress on this issue has been slow. Three reviews in 2009 and 2010 led to the creation of a Profile Governance Board in April 2011. This Board will be responsible for standardising

[20] Sea cargo shipping containers may either be 20 feet (6.1 metres) or 40 feet (12.2 metres) in length. For convenience, the trading community expresses all container measures in Twenty Foot Equivalent (TEU).

procedures across the agency and assessing the overall effectiveness of profiles and alerts to ensure that new profiles and alerts reflect identified changes in risks. A detailed implementation plan for reviewing profile effectiveness was completed in July 2011.

Treatment of Risks Relating to Illicit Drugs, Precursors and Terrorism

35. The importation, possession and use of illicit drugs, precursors and goods for a terrorist-related purpose are serious criminal offences. Given this, and the high risk that such goods present to the community, the only effective treatment is to detect them in the cargo stream and seize them before they enter the country. Up to July 2009, Customs and Border Protection had set targets for the number of air consignments and sea cargo containers it would inspect (and examine if necessary): 6.2 million air cargo consignments[21] and 134 000 TEU sea cargo containers. The pressure to meet these targets meant that Customs and Border Protection tended to concentrate on a limited number of high-volume depots and warehouses because the large number of HVLV items these importers handled facilitated meeting the targets.

36. In July 2009, Customs and Border Protection introduced its Cargo Intervention Strategy (CIS) which places greater emphasis on the use of intelligence and techniques such as statistical analysis and data mining, coupled with profiles and alerts to identify high-risk consignments. While it still has targets for the number of examinations, these have decreased to 1.5 million for air cargo consignments and 101 500 TEU. The CIS has also seen the reduction of 63 staff and a consequent saving of $49.5 million over the four years from 2009–10 to 2012–13.

37. There has been a decline in the total number of detections[22] in sea cargo over time, although air cargo detections have increased over the same period. While detection outcomes may indicate some measure of success, the level of this success is not known as the undetected population of prohibited and

[21] In the early 2000s, a number of events occurring overseas (such as foot and mouth disease and equine influenza) led to additional resources being provided to Customs and Border Protection (and other agencies) to mass screen air cargo.

[22] This includes all prohibited items, but not referrals of potential quarantine material to AQIS which may not lead to a seizure. Air cargo detections increased from an average of 125 per month in 2008–09 to 145 in 2010–11 and sea cargo detections declined from an average of 65 per month in 2008–09 to 47 per month in 2010–11.

restricted goods is also unknown. To determine how effective the CIS has been in identifying high—risk cargo, it will be important for Customs and Border Protection to analyse profiles and alerts data and inspection and examination outcomes, and their interrelationships.

38. Detections are classified and reported within Customs and Border Protection as either 'major' or 'other'. The definition of 'major' is very broad, and includes, among other things, all detections of illicit drugs, regardless of the type or quantity.[23] Major detections have included two cannabis seeds, an empty bullet casing and a single slingshot. In response to this audit, Customs and Border Protection has advised that it is reviewing this definition.

Treatment of risks relating to cargo processing, regulated trade and revenue

39. Risks relating to the processing of sea and air cargo imports, regulated trade and revenue may range from importers failing to comply with reporting requirements due to inadvertence or lack of knowledge through to individuals who seek to avoid the payment of customs duty or GST or to import prohibited goods or goods which require a permit (such as steroids).

40. Prior to the introduction of the new DRRM compliance model in July 2010, the primary treatment for these risks had been post-transaction audits. These audits could be resource-intensive and time consuming. The new compliance model focuses on targeting non-compliant transactions and behaviours and is more consistent with an intelligence-led risk-based approach. Customs and Border Protection has also expanded its range of compliance activities to include education, campaigns, pre-clearance monitoring and intervention, 'saturation' exercises and more focused field audits and visits. The adoption of this new model has seen the reduction of 24 staff and a consequential saving of $8.1 million over the four years from 2009–10 to 2012–13.

41. It is too early to draw a firm conclusion whether the new compliance model (DRRM) has been effective, since the introduction of new compliance activities prevents ready comparisons with previous years. Based on the

[23] In addition to any quantity of illicit drugs, Customs and Border Protection's definition of major includes, for example, all fauna detections, anything with a suspected terrorism significance and anything which may be the subject of a media release or media interview.

ANAO's analysis of Customs and Border Protection's performance reports to its Operations Committee, there have been improvements over time in a number of indicators, including an increase in the detections of underpayments of customs duty and GST.[24] There was also an increasing trend in adjustments to revenue payments of $1000 or more from 29 per cent in 2005–06 to 80 per cent in 2010–11. These early indicators would suggest that the new model may achieve comparable results when dealing with risks to revenue.

42. The DRRM introduced a number of new or changed risk treatments. However, the compliance manual on Customs and Border Protection's intranet was prepared in 2005 and had not been updated to reflect current organisational arrangements, numerous changes to Customs legislation since 2005 or current Compliance Assurance Branch business practices. There was also little recent material available on Customs and Border Protection's website to explain the new model to its clients (such as importers, Customs brokers and depot and warehouse licensees), including their rights and responsibilities.

The Infringement Notice Scheme

43. Customs and Border Protection's Infringement Notice Scheme (INS) allows it to impose penalties for offences ranging from a misleading statement in relation to imported goods to moving, altering or interfering with goods that are subject to Customs control without proper authorisation. The current INS is considered to be difficult, time-consuming and cumbersome. Over three years between July 2007 and June 2010, only 228 penalties (or just over six per month) were issued with a total penalty amount of $273 877. In 2010–11, the number of penalties increased to 338 (or 28 per month) with a total penalty amount of $338 573. Other Customs administrations have similar schemes and, in contrast to Customs and Border Protection, in the period from July 2007 to June 2010, the Canada Border Services Agency issued 23 810 penalties (or 661 per month), with a total penalty amount of $27 687 100, suggesting much greater use is made of penalties when dealing with non-compliance.

[24] Detections of underpayments of customs duty increased from $12.4 million in 2006–07 to $37.0 million in 2010–11 and detections in underpayments in GST increased from $35.0 million to $47.7 million over the same period.

Estimation of revenue leakage

44. In 2001, Compliance Assurance Branch sought to develop a 'statistically valid measure of client revenue compliance'. Until 2009, this approach involved undertaking 'benchmark' audits where the importations by a sample number of selected companies were examined for accuracy. In 2009, Customs and Border Protection used a Compliance Monitoring Program under which a randomly selected number of importers were asked to supply copies of commercial documents to verify data input to the ICS. Under both models, statistical analysis was then used to extrapolate the potential amount of revenue leakage (that is, the difference between customs duty and GST that were actually paid and the amount that should have been paid).

45. Customs and Border Protection varied this methodology in recent years and now bases its analysis on a sample of companies which it considers are 'compliant'. As a result, the leakage estimates are inconsistent with the additional revenue Customs and Border Protection actually collects from its compliance activity. For example, in 2008–09 its GST leakage estimate was $1.7 million but it actually detected and collected $181.2 million. In reporting the results of the benchmark audits and Compliance Monitoring Program, which showed leakage at less than one per cent, Customs and Border Protection did not clearly state that it was measuring revenue leakage from compliant companies only. If this estimate is to be reliable, the sampling methodology should include all import populations, the approach Customs and Border Protection adopted for several years.

Risks Associated with Self Assessed Clearances

46. Since the introduction of the ICS in 2005, the *Customs Act 1901* (the Customs Act) has allowed the importation of goods with a total value of $1 000 or less to be reported using a streamlined reporting process known as a Self Assessed Clearance (SAC). There are three types of SAC, with the most common, the Cargo Report Self Assessed Clearance (CRSAC) accounting for more than 10 million air cargo importations in 2010–11, a more than three-fold increase since 2005–06.[25] This large increase is due to the increasing popularity of online shopping.

[25] The other SAC types are known as Short and Full format SACs which can be used to report consignments which contain alcohol or tobacco (which always attract customs duty, GST and Wine Equalisation Tax (if applicable)) or which require a permit to be imported.

47. Customs and Border Protection officers have on numerous occasions expressed concerns about the risks posed by CRSACs. These include misdescription and undervaluation of goods (which can present risks both in terms of revenue evasion and importation of prohibited and restricted goods), inaccurate, incomplete and nonsensical goods descriptions. In 2011, Customs and Border Protection conducted an operation aimed at 'ensuring that the current GST and customs duty thresholds were not being abused'. During the three months of the operation (from January to March 2011), 31 801 CRSACs were assessed.[26] Proof of the purchase price paid was requested in 11 699 instances (36.8 per cent). Of those, 1 604 (13.7 per cent) resulted in the payment of $625 286 in additional customs duty or GST. Of the 31 801 consignments assessed during the three months of the operation, only 123 (0.4 per cent) were physically opened.

Cargo Report SACs data analysis

48. Given the concerns previously expressed by Customs and Border Protection officers, the ANAO downloaded and analysed data from a sample of approximately 1.3 million CRSACs submitted in 2010 (which represented about 13 per cent of the total number in the period). Given the historical nature of the data, it was not possible to physically examine the consignments. However, the ANAO's analysis identified evidence that is indicative of a range of risks associated with CRSACs including:

- 1.2 million consignments with very low reported values ($0 to $10)[27];
- consignments such as luxury car parts and new technology where the declared value appears inconsistent with the weight and description of the goods;
- consignments where the goods description appears inconsistent with the business of the consignor and consignee;
- consignments which were clearly described as alcohol and are not permitted to be entered on a CRSAC; and

[26] This included 11 199 CRSACs that Customs and Border Protection would have monitored under its 'Business-as-usual' monitoring program and an additional 20 602 assessments.

[27] Some shipments might legitimately have a very low monetary value, particularly those which comprise business and personal documents. Goods with such descriptions were excluded from the ANAO's sample.

- consignments where the goods description was incomplete or inaccurate (for example, 'TBA', 'electronic stuff', 'sample' or '# 70 010761').

49. Given these risk indicators and the large increase in the number of CRSACs since 2005–06, there would be benefit in Customs and Border Protection reviewing its arrangements for SAC processing.

Summary of agency response

50. The proposed report was provided to Customs and Border Protection for formal comment. Customs and Border Protection provided the following summary response, and the formal response is shown at Appendix 1.

> Customs and Border Protection welcomes the audit report, which confirms that the agency effectively uses risk management strategies to process sea and air cargo imports.
>
> Customs and Border Protection agrees with the recommendations in the report, which provide useful perspective on areas where improvement strategies can be explored to ensure the best possible approach to processing air and sea cargo.

Recommendations

Recommendation No.1

Para 5.24

To improve its estimation of revenue leakage, the ANAO recommends that Customs and Border Protection:

- adopts a revenue estimation methodology that estimates leakage across all sections of the import population; and
- accurately reports the results and methodology applied.

Customs and Border Protection Response: Agreed.

Recommendation No.2

Para 5.45

To improve the usefulness of the Infringement Notice Scheme as a mechanism for improving compliance and discouraging non-compliance, the ANAO recommends that Customs and Border Protection:

(a) reviews the operation of the Scheme to identify the impediments to its wider use and whether these impediments can be rectified; and if required

(b) seeks any necessary administrative or legislative changes to the existing scheme to improve its effectiveness.

Customs and Border Protection Response: Agreed.

Recommendation No.3

Para 6.35

To better assess and manage the risks presented by Cargo Report Self Assessed Clearances, the ANAO recommends that Customs and Border Protection undertake a review of its processing arrangements for Self Assessed Clearances.

Customs and Border Protection Response: Agreed.

Audit Findings

1. Background and Context

This chapter describes the mission and role of Customs and Border Protection, the background to its use of risk management in the processing of imports and the various steps required to import air and sea cargo. The objective and scope of the audit are also outlined.

Customs and Border Protection's mission and role

1.1 The Australian Customs and Border Protection Service (Customs and Border Protection) is one of the oldest Commonwealth government agencies.[28] At 30 June 2011, Customs and Border Protection employed 5 674 people at 39 offices around Australia and nine offices overseas. Its 2010–11 budgeted cost of operations was some $1.1 billion.

1.2 The agency's stated mission is:

> The protection of the safety, security and commercial interests of Australians through border protection designed to support legitimate trade and travel and ensure collection of border-related revenue and trade statistics.[29]

In seeking to fulfil this mission, Customs and Border Protection's role is to:

- prevent, deter and detect the illegal movement of people across Australia's borders;
- prevent, deter and detect prohibited, harmful and illegal goods from entering Australia;
- investigate suspected breaches of a range of border controls;
- counter civil maritime security threats in Australian waters through Border Protection Command;
- facilitate legitimate trade and travel;

---

[28] The Australian Customs and Border Protection Service has been known by a number of names since its creation, including Her Majesty's Australian Customs and, more recently, the Australian Customs Service. For simplicity, it is referred to as Customs and Border Protection throughout this report.

[29] Australian Customs and Border Protection Service, *Annual Report 2009–10* <http://www.customs.gov.au/webdata/resources/files/43034-ACBPS09-10-AR-web.pdf> p.7 [accessed 1 November 2010].

- deliver industry assistance, including through Australia's anti-dumping and countervailing and Tariff Concession Schemes; and
- collect border-related revenue and statistics.[30]

1.3 Australia's border is a complex environment. The majority of people and goods entering and leaving the country pose no threat. However, the entry of some people and goods into Australia do present risks. These can take the form of major threats–such as those posed by the entry of terrorists and illicit drugs–to more moderate threats such as the non-payment of customs duty and the importation of restricted goods without the appropriate permit.[31]

1.4 Customs and Border Protection must balance the dual and often competing priorities of facilitating trade with protecting the Australian border. In 2010–11, Customs and Border Protection facilitated the importation of 13.9 million air consignments, 2.5 million sea manifest lines, and approximately 169 million postal items. It collected $9.6 billion dollars of customs duty and border-related taxes and charges and supported the collection of border-related GST by the Australian Taxation Office of $19.9 billion. It also detected and seized:

- 2 181 kilograms of drugs from 15 492 individual detections[32];
- 5 922 undeclared firearms, parts and accessories;
- 1 226 instances of objectionable material; and
- 2 549 consignments of counterfeit goods with a potential retail value of over $29 million.

The import process

1.5 There are three 'streams' for the importation of goods into Australia: air cargo, sea cargo and international mail. The following overview concentrates

[30] ibid.

[31] There is a large range of restricted goods which governments have decided should either be prohibited from entering Australia altogether under any circumstances or which have legitimate uses but in respect of which a permit is required at the time of importation to ensure that they are not misused (such as tablet presses).

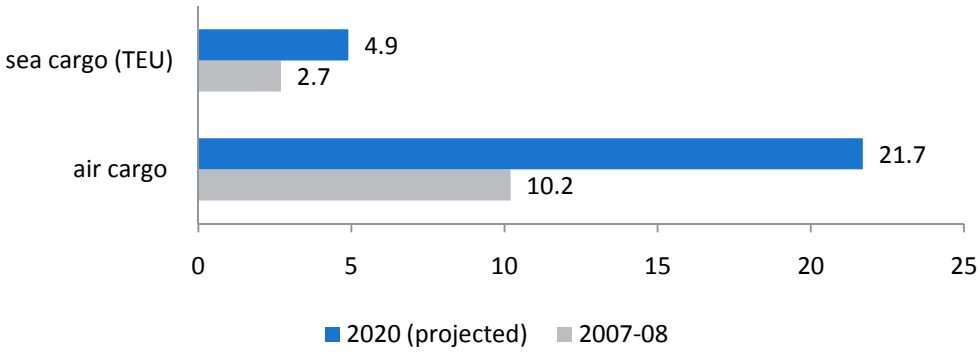
[32] These detections included amphetamine-type stimulants, cocaine, heroin, MDMA (ecstasy), cannabis, performance and image-enhancing drugs (PIED) and the chemical precursors to these drugs.

on the containerised sea cargo and air cargo streams as they are the subject of this audit.[33]

1.6 The volume of sea and air cargo imports is expected to increase substantially in coming years. Figure 1.1 shows Customs and Border Protection's projected growth from 2007–08 to 2020.

Figure 1.1

Projected growth in sea and air cargo imports 2007–08 to 2020 (millions)



Source: Customs and Border Protection, *Border Management Outlook 2020.*

1.7 All cargo arriving in Australia is subject to customs control and cannot be released into 'home consumption' without Customs and Border Protection's permission.[34] All those involved in the importation of cargo are required by law to provide Customs and Border Protection with a variety of reports prior to, at, and following the arrival of the aircraft or vessel and the actual importation of the cargo.[35] Cargo reports, which include a description of the cargo, must be input electronically into Customs and Border Protection's Integrated Cargo System (ICS) not less than 48 hours before arrival for sea cargo, and not less than two hours for air cargo. This allows Customs and Border Protection to commence risk assessing the cargo before it has actually arrived.

[33] A potential performance audit of international mail has been included in the 2011 ANAO Audit Work Program.

[34] 'Home consumption' means that the goods enter into the commerce of Australia.

[35] This can include airlines, shipping companies, air express couriers, freight forwarders and consolidators, aircraft and vessel owners, customs brokers and owners of cargo.

1.8 A formal declaration relating to the cargo must be made by the importer (or a broker on their behalf). These declarations provide additional information about the cargo and may either be given a 'held' status if Customs and Border Protection wish to obtain more information or examine the cargo, or a 'clear' status. Cargo that receives a 'clear' status can be released once all customs duty and border-related taxes and charges have been paid.

Import declarations

1.9 Once an item has been imported into Australia, it remains under Customs control until all taxes and duties have been paid, or other requirements have been met (such as the cleaning of containers for quarantine purposes) and it has been released via the granting of an Authority to Deal under section 71C of the Customs Act.[36] Before this can happen, an import declaration must be made (section 71A of the Act). There are two types of Customs Declarations: Full Import Declarations (FIDs) and Self Assessed Clearance Declaration (SACs) for consignments with a value of less than $1 000.[37]

Full Import Declaration

1.10 FIDs are the most detailed type of Import Declaration and must state the section of the Customs Tariff[38] which applies to the goods. They can be submitted by the owner of the goods, but due to the complexity of the tariff classification system they are generally completed by a broker, licensed to perform this function by Customs and Border Protection.

1.11 FIDs are required for all imported goods with a Customs value that exceeds the entry threshold as defined in section 68 of the Customs Act,

---

[36] In order to avoid congestion at sea and air ports, imported goods may be moved from the point of importation to depots or warehouses. These premises are licensed and regulated by Customs and Border Protection. Penalties apply if goods are moved, altered or interfered with, without Customs and Border Protection approval. All cargo (including mail) on board an aircraft or ship arriving in Australia from overseas comes under Customs control and remains so whilst that aircraft or ship is in Australia. Cargo also remains subject to Customs control from the time of discharge from the aircraft or ship to the time of Customs release.

[37] Customs and Border Protection also require people importing Unaccompanied Personal Effects (UPE) to supply a UPE Statement, but this is not a formal declaration for the purposes of section 68 of the Customs Act.

[38] The Harmonized Commodity Description and Coding System (HS) of tariff nomenclature is an internationally standardised system of names and numbers for classifying traded products developed and maintained by the World Customs Organization (WCO). In Australia, the Customs Tariff contains 21 Divisions and 97 chapters and lists the Customs duty payable.

currently set at $1 000. In almost all[39] cases, customs duty and GST must be paid in full, any necessary permits produced, any other impediments (such as quarantine) resolved and a 'Clear' status granted by Customs and Border Protection before the goods can be released from Customs control and into home consumption.

Self Assessed Clearance Declarations

1.12 SAC Declarations are made when importing goods that have a Customs value at or below the 'low value threshold' (currently $1 000). SACs represent approximately 65 to 70 per cent of all import declarations and the majority of these (greater than 99 per cent) are imported through air cargo. There are three SAC types, the most common (around 97 per cent) being the Cargo Report SAC (CRSAC).[40] In 2010–11, there were 10.6 million CRSACs.

1.13 CRSACs may be communicated to Customs and Border Protection by a cargo reporter but must be communicated electronically. They are the preferred importation method for low-value goods as they require less detailed reporting, avoiding the need for a customs broker (an estimated saving of approximately $100 per importation). Goods imported on a CRSAC are not required to pay customs duty, GST or import processing charges.[41] The two exceptions are tobacco and alcohol, which are always subject to customs duty and taxes.

Customs and Border Protection's Regulatory Philosophy

1.14 Customs and Border Protection's Regulatory Philosophy (illustrated in Figure 1.2) recognises that the majority of individuals and entities involved in the importation of cargo intend to comply with its regulatory requirements and should be permitted to operate in a self-assessed environment with minimal or no intervention. It recognises that there is a compliance continuum ranging from importers who comply with border-related legislative

[39] There are a very small number of circumstances prescribed in the Customs Act where goods may be cleared without a formal entry. These include 'goods reasonably required for disaster relief or for urgent medical purposes' (section 70).

[40] The other SAC types are short-format SACs (136 463 in 2010–11) and full-format SACs (156 357 in 2010–11)

[41] Customs and Border Protection has an import processing charge of $40.20 for electronically reported FIDs arriving by air or international mail, and $50 by sea. Fees are higher for manually reported declarations.

requirements, through to those who inadvertently fail to comply, to serious criminals who actively seek to evade border controls. Thus, Customs and Border Protection measures its success in terms of the proportion of cargo that passes unimpeded through the import process as well as through the number and type of prohibited or restricted goods detected and revenue collected.[42]

1.15 Customs and Border Protection describes its approach to managing the flow of sea and air cargo imports as 'intelligence-led and risk-based'. This approach is aimed at assessing the risks that prohibited or restricted goods present at the border and designing ways to treat these risks that are commensurate with the level of the risk and the resources available.

Figure 1.2

Regulatory Philosophy – Customs compliance continuum

BEHAVIOURS AND MOTIVATION			
Self regulation • Informed self assessment • Management is compliance oriented • Includes accredited clients	**Assisted self regulation** • Not yet compliant • Attempting compliance • Developing internal control systems	**Directed regulation** • Resistance to compliance • Lack of compliance • Limited / poor system	**Enforced regulation** • Deliberate non compliance • Criminal intent • Illegal activity
CUSTOMS OPERATIONAL RESPONSE			
• Education and training • Maximum pre-arrival / departure clearance • Minimum real time pre clearance intervention • Some compliance verification • Sanctions may be imposed	• Education and training • Some real time pre clearance intervention • Some post clearance checking • Compliance verification • Sanctions may be imposed	• Pre and post clearance intervention • Post clearance comprehensive audit • Pre clearance major examination • Sanctions may be imposed	• Pre and post clearance intervention • Comprehensive audits • Cargo searches (may be covert) • Surveillance • Investigation by multi disciplined teams • Sanctions imposed

RISK

Low ⟷ High

Source: ANAO from Customs and Border Protection website.[43]

[42] Customs and Border Protection's biennial *Time Release Study 2009* showed that 79 per cent of sea cargo and 71 per cent of air cargo were risk-assessed prior to arrival and allowed to pass without impediment.

[43] Customs and Border Protection website, Regulatory Philosophy,

Footnote continued on the next page…

Risk management within the border context

1.16 It would be a costly, resource-intensive and time-consuming exercise for any customs organisation (and importers) to inspect and/or examine all sea and air cargo consignments. Targeting high–risk imports for intervention and compliance activity is the pragmatic response to the combination of increasing international trade and static (or declining) regulatory resources. Customs and Border Protection does this by working closely with other government and intelligence agencies.

Kyoto Convention and International Risk Management Standard

1.17 The World Customs Organization (WCO) is an intergovernmental organisation representing 174 Customs services. Its mission is to 'improve the effectiveness and the efficiency of its member administrations across the globe.'[44] One way that it has done this is to release *The International Convention on the Simplification and Harmonisation of Customs Procedures* (known as the Kyoto Convention). This Convention came into force in 1974, and was subsequently revised in 1999. There are 76 countries (including Australia) that are signatories to the revised convention. The governing principles of the convention include:

- transparency and predictability of Customs actions;
- standardisation and simplification of the goods declaration and supporting documents;
- minimum necessary Customs control to ensure compliance with regulations; and
- use of risk management and audit based controls.

1.18 In line with these principles, two aspects of the convention are directly related to the use of risk management by Customs organisations:

<http://www.customs.gov.au/webdata/resources/files/CMR_20040624_regulatory_philosophy1.pdf> (April 2001), [accessed 2 February 2011].

[44] World Customs Organization, *Mission, Values and Activities*, <http://www.wcoomd.org/files/1.%20Public%20files/PDFandDocuments/About%20Us/DEPL%20OMD%20UK%20A4.pdf> [accessed 24 May 2011].

Standard 6.3: In the application of Customs control, the Customs shall use risk management; and

Standard 6.4: The Customs shall use risk analysis to determine which persons and which goods, including means of transport, should be examined and the extent of the examination.[45]

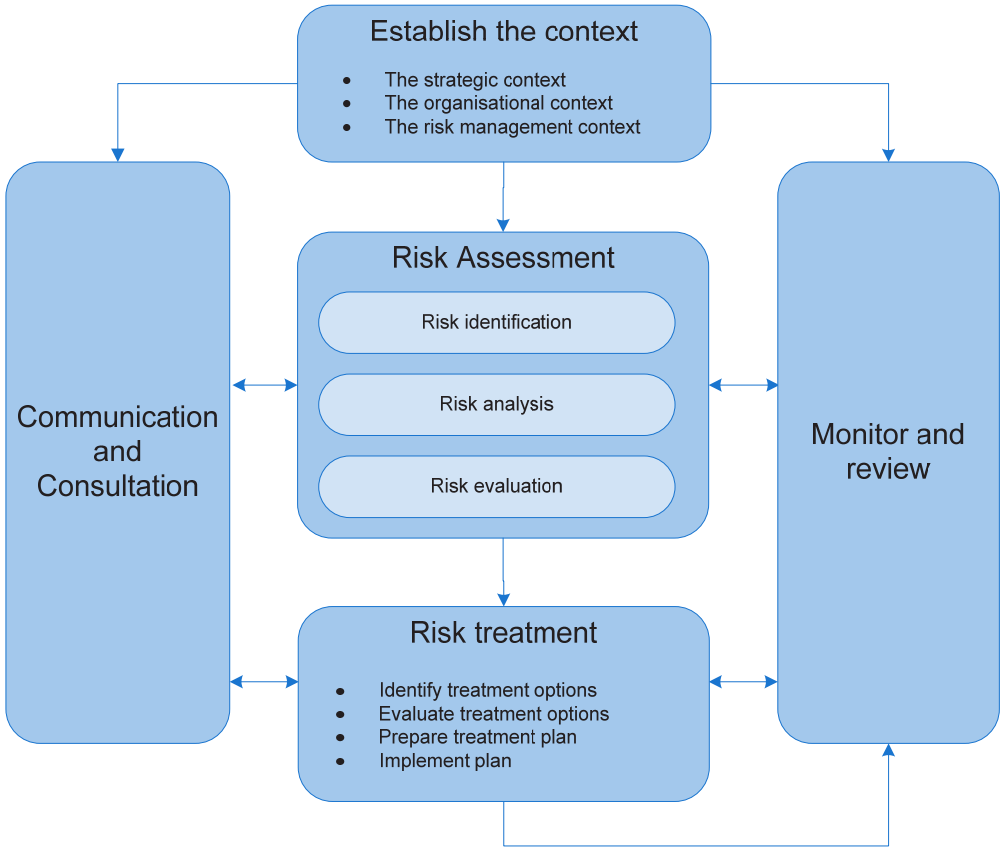
1.19 In addition to the WCO Risk Management Guide, Standards Australia has released an international standard which is available for use by any organisation seeking to apply risk management in its operations.[46] The risk management models contained in these guides are conceptually the same and involve the process shown diagrammatically in Figure 1.3.

[45] World Customs Organization, *Text of the Revised Kyoto Convention*, <http://www.wcoomd.org/Kyoto_New/Content/content.html> [accessed 14 May 2011].

[46] Standards Australia, AS/NZS ISO 31000:2009 *Risk Management*

Figure 1.3

Risk Management process



Source: ANAO representation of World Customs Organization and International Standard.

Customs and Border Protection's risk management framework

1.20 Within Customs and Border Protection, risks are assessed and managed at three levels: strategic, operational and tactical. Strategic risks are the high-level whole-of-agency border risks articulated in the agency's Annual Plan and Annual Risk Plan, as well as the Government's broader Strategic Border Management Plan, which was released in September 2009. These risks are: terrorism; the unauthorised or irregular movement of people; biosecurity threats; the movement of prohibited and restricted goods; unlawful activity in the maritime zone; and the non-payment of border-related revenue (customs duty, taxes and charges).

1.21 After strategic risks have been identified and risk mitigation strategies developed[47], the implementation of these strategies is undertaken at the operational level through the Cargo Intervention Strategy (CIS) and the application of the Differentiated Risk Response Model (DRRM). At the border, profiles and alerts are the tactical risk management tools used to identify at-risk consignments for inspection and examination.

Identifying high-risk sea and air cargo imports

1.22 Profiles identify broad risks or sets of risk indicators and are based on intelligence either developed within Customs and Border Protection or passed to it by other agencies such as the Australian Federal Police. Alerts are entity-specific but are also generally intelligence-based. In 2010–11, the ICS contained 2 394 profiles and alerts, which led to two million 'matches'. When import data matches a profile or alert, an officer (known as a profile owner) is alerted electronically and must decide whether the cargo requires further inspection or examination to ascertain its contents.[48]

Responding to air and sea cargo import risks

1.23 There has been considerable change in recent years in the way Customs and Border Protection plans for, and responds to, identified risks. In July 2009, Customs and Border Protection introduced a new Cargo Intervention Strategy. This strategy maintained the practice of examining all cargo identified as high-risk but reduced the overall number of planned inspections by 76 per cent for air cargo imports and 24 per cent for sea cargo imports.

1.24 In July 2010, compliance activity also moved towards a more risk-oriented, transaction-based approach through the implementation of the new Differentiated Risk Response Model (DRRM). A broader range of treatments was also adopted, including education, campaigns, pre-clearance monitoring and intervention, 'saturation' exercises and more focused field

[47] Risk mitigation strategies can range from educating people about their obligations to comply with border legislation, the imposition of financial penalties to the seizure of goods, prosecution and imprisonment.

[48] Customs and Border Protection defines inspection as 'use of any or all processes, including risk assessment, inspection and examination, in order to prevent the import or export of prohibited items and to control the movement of restricted items. Inspections may include the use of detector dogs, non-intrusive examination through the use of x-ray technology (static or mobile), trace particle detection or a physical examination of the cargo'. Examinations are defined as the 'physical examination of the cargo by a Customs officer'.

audits and visits.[49] The implementation of the DRRM saw a reduction in the resourcing levels (24 staff) of Compliance Assurance Branch.

Audit objective, scope and criteria

1.25 The objective of this audit was to assess Customs and Border Protection's use of risk management to assist in the processing of sea and air cargo imports. International mail was not within the scope of the audit but has been listed as a potential audit in the ANAO's 2011 Audit Work Program.

Audit criteria

1.26 The audit sought to determine whether Customs and Border Protection:

- has a soundly-based risk management model to support its management of the processing of sea and air cargo imports;
- uses risk management to determine cargo intervention and compliance activities; and
- supports risk management strategies with appropriate compliance measures.

Audit methodology

1.27 The audit methodology included examining and reviewing relevant Customs and Border Protection files and documentation and a technical evaluation of key information technology systems. Fieldwork was undertaken in Canberra, Sydney, Melbourne and Brisbane and interviews were held with relevant Customs and Border Protection staff in those locations.

1.28 The audit was conducted in accordance with the ANAO auditing standards at a cost of approximately $524 706.

[49] Campaigns are national planned programs of activity aimed at testing assumptions about the level, extent or severity of risks. Pre-clearance monitoring includes checking a random selection of import declarations and, if necessary, seeking additional or clarifying documentation before the goods are released. Saturation exercises involve a tightly-focused short term activity and may involve, for example, screening all packages from a single airline flight.

Previous ANAO audits of the import process

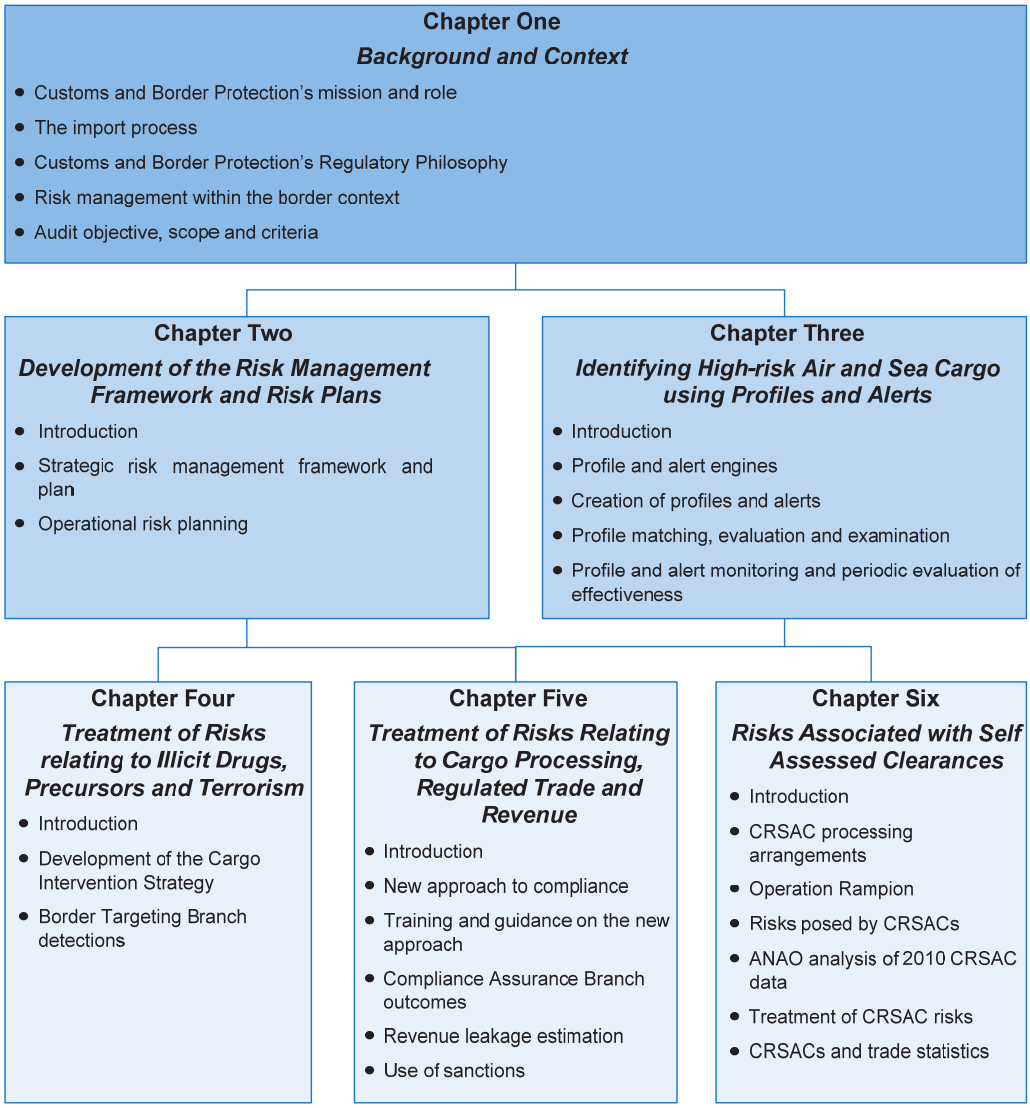
1.29 The ANAO has considered Customs and Border Protection's use of risk management to varying degrees in a number of previous audits. These audits have charted the agency's progress in introducing risk management into its operations.

Report structure

1.30 In addition to this introductory chapter, the report includes five chapters as outlined in Figure 1.4

Figure 1.4

Structure of the report



Source: ANAO.

2. Development of the Risk Management Framework and Risk Plans

This chapter examines Customs and Border Protection's strategic and operational risk management frameworks and the development of risk plans.

Introduction

2.1 In December 2008, the then Prime Minister presented the inaugural National Security Statement to Parliament and released the summary and conclusions of the Report of the Review of Homeland and Border Security.[50] In the Statement, the Prime Minister announced that the Australian Customs Service would be 'augmented, re-tasked and re-named the Australian Customs and Border Protection Service'. Subsequently, the border management agencies developed a Strategic Border Management Plan (the SBMP).[51]

2.2 The SBMP is intended to enable better coordination of government agencies operating in the border environment and guide whole-of-government decisions to develop capability into the future. It was released in August 2009 and identified six broad sources of border risk:

- terrorism (aviation and maritime);
- unauthorised or irregular movement of people (by sea and by air);
- biosecurity;
- the movement of prohibited, restricted and regulated goods;
- other unlawful activity in the maritime zone; and
- revenue.

[50] In 2008, the then Prime Minister commissioned Mr Ric Smith AO PSM to review homeland and border security and report to the government on the best and most efficient way to coordinate overall national security arrangements. The full report is classified but its major recommendations were summarised by the then Prime Minister the Hon. K Rudd, *The First National Security Statement to the Australian Parliament*, on 4 December 2009 <http://pmrudd.archive.dpmc.gov.au/node/5424>

[51] At the time the border management agencies were Customs and Border Protection, the Department of Immigration and Citizenship, the Biosecurity Services Group (within the Department of Agriculture, Fisheries and Forestry) and the Department of Infrastructure, Transport, Regional Development and Local Government.

2.3 In November 2009, Standards Australia released *Risk Management—Principles and Guidelines* (the Risk Management Standard) which is identical with the International Standard on risk management. The key differences between the 2009 Risk Management Standard and its 2004 predecessor were:

- risk was redefined as the effect of uncertainty on objectives;
- the principles that organisations must follow to achieve effective risk management were made more explicit; and
- greater emphasis and guidance was provided on how risk management should be implemented into organisations through the creation and continuous improvement of a framework.

2.4 The SBMP, the expansion of Customs and Border Protection's role and the release of the new Risk Management Standard prompted Customs and Border Protection to initiate a review of its risk management arrangements to better integrate border risk management practices within an enterprise risk management framework.

Strategic risk management framework and plan

2.5 Customs and Border Protection's first iteration of an enterprise risk framework was the Risk Plan 2010–11 which was released internally in December 2010. This plan was based on a series of workshops and drew upon other key strategic documents including the Strategic Intelligence Assessment 2009 and the SBMP.[52]

2.6 Recognising the need to contextualise the Risk Plan 2010–11, Customs and Border Protection released a multi-year planning and budgetary framework in January 2011. This is an overarching strategic framework which aligns the Customs and Border Protection's risk management, project and budget and resource management frameworks. Its vision for the multi-year planning and budgetary framework is stated as follows:

> As we embed the Multi-Year Framework and continue to develop and implement the Risk Management as well as the Budget and Resource Management and Project Management Frameworks, a strong strategic planning foundation will be created to ensure we:

[52] The workshops involved Senior Executive Service and senior staff at the National Director level who are assigned 'ownership' of individual border risks (known as Risk Leads).

- plan for the future, while delivering results today
- operate as an intelligence-led risk-based agency that appropriately balances law enforcement with facilitation
- remain a flexible and dynamic agency able to respond quickly and report to the Australian Government and community on what we do.

2.7 The intention is that the multi-year planning and budgetary framework will help to align decisions on resource allocation with assessments of relative risks across the whole of the organisation.

2.8 Customs and Border Protection has now completed two iterations of its Risk Plan in response to changes in the border environment. Although Customs and Border Protection advised the ANAO that the internal allocation of resources has always been 'informed by an assessment of border risks within and across programs', it considers that 'as the new framework in operation matures, more explicit links between the Risk Plan and agency-wide resource allocation will become more explicitly stated, commencing in the 2012–13 budget process'.

2.9 The new enterprise risk management framework also introduces improved risk governance arrangements, including the creation of a Chief Risk Officer position[53] and the creation of a Risk Committee. The committee's role is to standardise and coordinate risk management throughout the organisation.

2.10 The current and previous risk plans have included risk ratings which have been based on judgements by senior Customs and Border Protection officers. While such qualitative judgements are important, the Risk Management Standard recognises that where possible, quantitative analysis should also form part of the determination of the level and relative importance of risks. Customs and Border Protection acknowledges that quantitative measures, based on evidence, can provide objective, defensible and verifiable outputs and advised the ANAO that identification of quantitative measures of risk is part of its new approach to risk management. Where assessment of risk is based on opinion, the Risk Management Framework states that this should be indicated and further research conducted to seek objective validation.

[53] The Chief Risk Officer is also Customs and Border Protection's Chief Operating Officer. The Chief Risk Officer is responsible for 'the efficient and effective management of risk at the whole-of-agency level and advising the CEO on risk-related issues'.

2.11 Customs and Border Protection also recognises that there are gaps in its knowledge with respect to some risks (such as the illegal trade in wildlife) and is developing strategies to attempt to fill those gaps. These include liaising with relevant stakeholder agencies, intelligence tasking and conducting campaigns.[54] Formalising the process of identifying areas where research is required and specifying how to address this in the future would further assist Customs and Border Protection in building baseline knowledge of its key risks.

Risk reporting

2.12 The Risk Management Framework incorporates comprehensive monitoring, review and reporting arrangements, particularly on the impact of risk to Customs and Border Protection achieving its strategic objectives.

2.13 At the time of audit, Customs and Border Protection advised that the risk reporting templates were still under development, but provided a draft report template for illicit drugs and precursors. This template was a comprehensive examination of the risk that illicit drugs and precursors pose to the Australian community and provides a useful model for reporting other border risks. Specifically, it included:

- four specific outcomes that Customs and Border Protection seeks to achieve;
- specific key risk indicators including metrics;
- analysis of Customs and Border Protection's seizures of illicit drugs and precursors;
- analysis of the size of the illicit drug market in Australia; and
- the impact of illicit drugs on the Australian community using the AFP Drug Harm Index.[55]

2.14 The use of risk ratings across the full range of border risks will allow Customs and Border Protection to measure the relative risk of each threat to

[54] Campaigns involve a range of activities conducted within a short time frame. For example, in May 2009, Customs and Border Protection conducted a remote ports saturation campaign which involved intensive examination (including searching) of selected vessels in remote ports around Australia. As well as providing intelligence, campaigns help to introduce an element of unpredictability about when and where Customs and Border Protection may direct its border intervention strategies.

[55] The AFP Drug Harm Index was developed to provide a single measure that represents the dollar value of harm that would have been caused had seized drugs reached the community.

the border. It will also allow the agency to record changes to this risk level over time, and to modify its resource allocation so that the treated risk level is within tolerable bounds.

Operational risk planning

2.15 Customs and Border Protection has devolved responsibility for operational risk planning to the following three branches:

- Trade Policy and Regulation Branch has policy responsibility for the broad risk category of prohibited and restricted goods (with the exception of illicit drugs, precursors and counter-terrorism) and is responsible for the creation of community protection profiles[56];
- Compliance Assurance Branch manages risks of non-compliance with border control in the end-to-end cargo process relating to regulated goods, cargo control and border legislation, customs duty and GST. It also provides the operational response to the risks associated with prohibited and restricted goods identified by the Trade Policy and Regulation Branch; and
- Border Targeting Branch is responsible for risks relating to the highest risk areas (illicit drugs, precursors and counter-terrorism). The Cargo Division provides the operational support to Border Targeting Branch by implementing real time, cargo intervention strategies.

2.16 In order to assess the cascading effect of risk planning in Customs and Border Protection, the ANAO reviewed the operational level risk planning by each of these branches.

Trade Policy and Regulation Branch operational risk planning

2.17 Customs and Border Protection is responsible for imposing border controls on a wide range of prohibited and restricted goods.[57] The importation of goods can be prohibited (such as illicit drugs or child pornography) or restricted (where goods may have both legitimate and illegal applications, such as tablet presses). Restricted goods generally require a permit from an agency

[56] The use of profiles and alerts is discussed in more detail in Chapter 5.

[57] See <http://www.customs.gov.au/site/page4369.asp#e2101> for a list of prohibited and restricted goods.

or Minister or the production of a test certificate from an accredited laboratory at time of importation.

2.18 The legislative basis for the prohibition or restriction of many goods is the *Customs (Prohibited Imports) Regulations 1956* (the PI regulations). The PI Regulations consist of 12 schedules and include hundreds of items, some of which are specified (such as named drugs) and some of which have generic descriptions (such as goods containing asbestos). In addition, there are a number of other Commonwealth Acts which also contain prohibitions or restrictions.

2.19 While Customs and Border Protection has the operational responsibility at the border to intercept prohibited or restricted goods, a wide range of other agencies have the 'policy' responsibility for determining which goods should be subject to border controls and what the control should be. For example, the Therapeutic Goods Administration of the Department of Health and Ageing is responsible for the regulation of the importation of drugs such as growth hormones and steroids and the Department of Agriculture, Fisheries and Forestry is responsible for the regulation of pesticides. At the time of audit, there were 45 agencies with which Customs and Border Protection liaises in relation to prohibited and restricted goods.

2.20 Not all prohibited or restricted goods represent the same level of risk to the Australian community. For example, components which may be used in the manufacture of weapons of mass destruction could not be said to represent the same level of risk as goods made from cat or dog fur and would therefore not warrant the same level of intervention.

2.21 In April 2008, Trade Policy and Regulation Branch commenced a systematic review of prohibited and restricted goods in conjunction with its client 'policy' agencies. The purpose of the review was to:

- reach a view as to the relative risks this large range of goods presented; and
- consider whether there may be alternatives to seeking to intercept them at the border such as enacting controls in domestic legislation or community education.

2.22 Implementation of the review has been slow. However, Trade Policy and Regulation Branch and the Australian Competition and Consumer Commission are piloting the new prohibited and restricted goods risk

management framework.[58] At the time of audit, the framework had not yet been implemented for the other 44 agencies with policy responsibilities in relation to prohibited and restricted goods.

2.23 Trade Policy and Regulation Branch also developed a document entitled *Model of intervention in respect of prohibited and restricted goods.* The aim of this document is to explain the responsibilities of Customs and Border Protection and policy agencies in relation to prohibited and restricted goods. It also serves as a guidance document for agencies that may be contemplating seeking controls or restrictions at the border in the future.

Compliance Assurance Branch operational risk planning

Origins of compliance assurance

2.24 The task of ensuring that those involved in the importation of goods into Australia comply with relevant legislation—and, in particular, pay the correct amount of customs duty (and more recently, GST)—has existed since the establishment of Customs in 1901.

2.25 In 1996, the Australian Customs Service announced[59] that it was rationalising its compliance activity into nine industry sector groups called National Business Centres[60] to 'co-ordinate national risk analysis and compliance activity within those industry sectors'. In 2005, the Centres were replaced by the National Industry Leads and their number was increased to eleven.[61] In 2010, the National Industry Leads were renamed Compliance Risk Analysts (CRAs) and their coverage was again reviewed. Seven groups were abolished and six new groups created. The current portfolios are shown in Table 2.1.

---

[58] The Australian Competition and Consumer Commission is the agency with responsibility for the *Competition and Consumer Act 2010* and has responsibility for prohibitions and restrictions relating to consumer safety which comprise a significant number of prohibitions and restrictions.

[59] Australian Customs Notice 1996/50, *Commercial Compliance Structure*, Canberra, October 1996 <http://www.customs.gov.au/site/content1843.asp> [accessed 2 April 2011].

[60] Alcohol, Tobacco, Information Technology, Duty Free, Automotive and Transport, Textile, Clothing and Footwear, Mining, Petroleum and General Business.

[61] This involved the abolition of the Information Technology, Duty Free and Mining National Business Centres and the creation of National Industry Leads for Service Providers, Restricted Goods, Exports, Cargo Terminal Operators (CTOs) and Carriers and Depots, Warehouses and Duty Free.

Table 2.1

Portfolios covered by Compliance Risk Analysts

Category	Compliance Risk Analyst
Revenue	Textiles, Clothing and Footwear
	Automotive and Transport
	Excise Equivalent Goods
Regulated Goods	Medicines and Restricted Substances
	Strategic Goods and Specified Exports
	Consumer Protection
Cargo Process	Cargo Terminal Operators and Carriers
	Depots, Warehouses and Duty Free
	Reporting
Emerging Risk	Emerging Risk

Source: Customs and Border Protection.

2.26 The role of CRAs is to inform the operational direction of the Compliance Assurance Branch by providing risk assessments within their assigned portfolios and to provide support to programmed compliance activities. CRAs bid for Compliance Assurance Branch resources through an annual planning process.

Compliance regulatory philosophy

2.27 The Compliance Assurance Branch's regulatory philosophy is based on Customs and Border Protection's strategic compliance regulatory philosophy (illustrated in Figure 1.2). As previously noted, the essence of this philosophy is that the majority of individuals and entities involved in the importation of cargo into Australia[62] will seek to comply with regulatory requirements and should be permitted to operate in an environment of self-assessment with minimal or no intervention from Customs and Border Protection. However, as already noted, it recognises that there is a compliance continuum ranging from those importers who intend to comply, through those who fail to comply through ignorance of regulatory requirements or inadvertent oversight to criminals who will actively seek to evade border controls.

[62] This includes importers, Cargo Terminal Operators, depots, warehouses, brokers, airlines, shipping companies and freight forwarders.

Compliance Assurance Branch risk management cycle

2.28 Compliance Assurance Branch is currently introducing a risk management cycle which involves the following steps:

- The CRA identifies and assesses risks, develops targets and outcomes against the risk and submits bids for treatment resources via a Risk Assessment Report;
- The Risk and Strategy section (central office) consolidates CRA Risk Assessment Reports and considers risks against Customs and Border Protection priorities. The section compiles the draft Compliance Action Plan for presentation to the Compliance Executive Group (CEG). The CEG considers the draft, amends it as necessary to align resources with priorities and endorses it;
- Compliance Assurance teams execute the Compliance Action Plan; and
- Outcomes are evaluated and results fed back to CRAs and stakeholders and Business Effectiveness Report is prepared for Customs and Border Protection Executive.

2.29 There are a range of specific risk treatments that can be applied according to the nature of the industry sector and the level of the identified risk. These treatments, and the minimum requirements for their use, are outlined in a document entitled *Case Selection Model for Differentiated Risk Treatments*.[63] These are discussed in more detail in Chapter 5.

Border Targeting Branch

2.30 The operational risk environment for the Border Targeting Branch is different from that which applies to Trade Policy and Regulation Branch and Compliance Assurance Branch. In the case of illicit drugs, precursors and terrorism-related goods, Customs and Border Protection has assessed the risk as high as part of its organisational–level strategic risk plan. The only appropriate 'treatment' is to detect, deter and disrupt attempts to import them. By contrast, there are a range of risk levels within the environments in which Trade Policy and Regulation Branch and Compliance Assurance Branch

[63] The minimum requirements may be a dollar value of detected non-compliance, any available evidence to indicate an intention not to comply or the number of previously recorded instances of breaches of border controls (such as movement of goods without permission).

operate. A broader range of risk treatments and intervention responses are therefore appropriate (such as 'reduce' in the case of low to medium risk goods or 'contain' in the case of low-risk goods).

2.31 In this context, it is not necessary to develop separate operational risk frameworks or plans in relation to illicit drugs and terrorism-related goods. Border Targeting Branch's operational activities and cargo intervention strategies are discussed in more detail in the next chapter.

Conclusion

2.32 At the strategic level, Customs and Border Protection's risk management model is consistent with the Australian Standard, and reflects good practice elements. Its risk governance arrangements have been strengthened by the creation of a Chief Risk Officer position, the establishment of a Risk Committee and clearer allocation of responsibility for each border risk to a nominated officer at the Senior Executive Service level who is required to report at least quarterly to the Risk Committee. This approach should facilitate coordination across Customs and Border Protection's operational areas.

2.33 The operational risk management arrangements that Trade Policy and Regulation Branch has put in place are consistent with risk management good practice and provides a sound basis on which to direct operational activities. However, a review of the relative risks posed by the wide range of prohibited and restricted goods which commenced in 2008 had only reached a pilot stage with one policy agency at the time of audit. There would be benefits to Customs and Border Protection and policy agencies if this review could be progressed.

2.34 The Compliance Assurance Branch's risk management framework is also conceptually sound: there is a robust process for identifying and assessing risks and there is a range of available treatments proportionate to the levels of risk. There are also processes aimed at addressing gaps in its knowledge of the import environment.

3. Identifying High-risk Sea and Air Cargo Using Profiles and Alerts

This chapter examines Customs and Border Protection's use of profiles and alerts to identify air and sea cargo imports that may need further inspection and/or examination.

Introduction

3.1 Customs and Border Protection's primary tools for identifying and targeting high–risk sea and air cargo imports are profiles and alerts. They are used by the Trade Policy and Regulation Branch, the Compliance Assurance Branch and the Border Targeting Branch to attempt to identify consignments that present a risk to those areas for which each is responsible.[64]

3.2 Profiles identify broad risks or sets of risk indicators and are based on intelligence either developed within Customs and Border Protection or passed to it by other agencies such as the Australian Federal Police. Examples of profiles could be 'lanterns from China' or 'audio speakers from Canada'. Profiles may also be based on information that may be suggestive of suspicious activity such as an importation being addressed to a hotel. In addition to treating known risks, profiles may also be used to confirm or disprove a hypothesis that a risk exists in imports of a certain type, value, commodity or from a specific port or country. By contrast, alerts are entity-specific but are also generally intelligence-based. For example, an alert may specify a consignee address, a specific company name or a container number.

3.3 The processes and procedures for the creation of profiles and alerts is the same across all areas of Customs and Border Protection. The ANAO

[64] As outlined at paragraph 2.15, the Trade Policy and Regulation Branch and the Compliance Assurance Branch are responsible for risks relating to prohibited and restricted goods, cargo control and the collection of revenue. The Border Targeting Branch is responsible for risks relating to illicit drugs, precursors and counter-terrorism.

examined how profiles and alerts are used, depending on the nature of the goods, and the processes for inspecting and/or examining these goods.[65]

Profile and alert engines

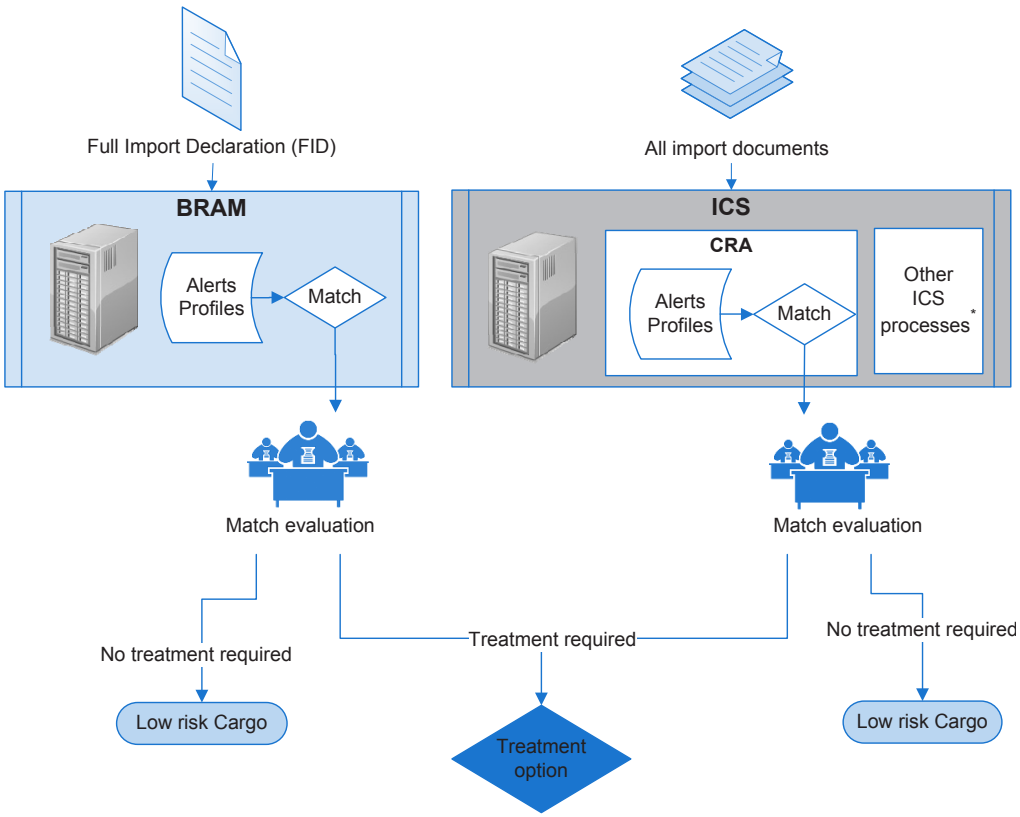
3.4 There are two profile 'engines' that manage profiles and alerts. The majority are managed in the Cargo Risk Assessment module within the Integrated Cargo System (ICS). This system matches profiles and alerts against all import documents. The second risk assessment system is known as the Behavioural Risk Assessment Module (BRAM). Profiles in this system use a range of risk indicators to target cargo importers. Figure 3.1 illustrates how these systems operate.

3.5 It is clearly important that all transactions that are lodged by importers (or Customs brokers on their behalf) are 'run' against all profiles and alerts. The ANAO undertook an examination of Customs and Border Protection's profiling systems to confirm that there are adequate systems controls in place to ensure that all import cargo reports are subjected to profiling.

[65] Inspections are defined as 'use of any or all processes, including risk assessment, inspection and examination, in order to prevent the import or export of prohibited items and to control the movement of restricted items. Inspections may include the use of detector dogs, non-intrusive examination through the use of x-ray technology (static or mobile), trace particle detection or a physical examination of the cargo'. Examinations are defined as the 'physical examination of the cargo by a Customs officer'.

Figure 3.1

Profile matching and evaluation



Source: ANAO analysis of Customs and Border Protection data.

Creation of profiles and alerts

Drivers for creating profiles and alerts

3.6 Profiles and alerts are requested by authorised Customs and Border Protection officers. They may be created in response to specific intelligence received from within Customs and Border Protection or from other sources. Profile creation is managed by a team of analysts called Assessment Planning and Coordination (APC), responsible for target development. The role of APC involves reviewing intelligence from a variety of sources to identify emerging and potential risk areas and further developing Customs and Border Protection's knowledge of existing risk areas or high–risk entities (targets). The APC uses a tool known as the Threat and Risk Assessment Model (TRAM), which was developed from a similar model used by the Australian Crime

Commission. The TRAM allows analysts to calculate the probable threat and impact of each target and generate a risk rating to prioritise activity.

3.7 Within Customs and Border Protection there is also an Advanced Analytics section. This section undertakes data mining of ICS data to identify possible indicators of high-risk transactions and entities as well as identifying elements in current profiles which are redundant and may cause over matching. The results of this work are provided to the APC for further consideration, with the potential to create or refine profiles and alerts.

National Profiling Centre

3.8 When it has been identified that a profile or alert is required, research is undertaken by the requesting officer to refine the criteria for the profile or alert. A formal request is then submitted to the National Profiling Centre (NPC).[66]

3.9 The NPC is responsible for:

- creating nationally consistent profiles focused on high–risk entities and transactions;
- high quality profiles providing increased 'finds' and decreases in mismatches and over-matching;
- central coordination of profile management; and
- improved client engagement and management processes.

3.10 The ANAO's audit, *Customs' Cargo Management Re-engineering Project* (No.24 2006–07) identified that when profiles and alerts were transitioned from the previous legacy systems into the Cargo Risk Assessment module within the ICS, there was inadequate testing of how they would perform in the new system.[67] The resulting overmatching and mismatching was largely responsible for significant delays in the processing of cargo in October 2005. Consequently, the NPC now undertakes robust testing of all profile and alert requests to ensure that they will not cause an excessive number of unproductive matches. This testing is undertaken in a development environment against a historical

[66] The National Profiling Centre, located in Sydney, was established in 2008 in order to centralise the processes of developing, creating and maintaining profiles and alerts. Previously, profiles and alerts were entered into the ICS by separate profiling centres in each region.

[67] ANAO Report No. 24 2006–07, *Customs' Cargo Management Re-engineering Project*.

copy of the ICS or against specifically created test data. If necessary, the profile or alert can be 'tuned' to deliver more or fewer results. Obtaining the 'right' number of matches is a matter for the judgement of NPC officers in consultation with the requesting officer (the profile owner).

3.11 The profile owner must also decide whether triggering of the profile or alert should result in an automatic 'hold' of the cargo. The profile may either place a hold on the cargo automatically, requiring it to remain at the point of importation (either the port or airport of arrival) or it may be permitted to move from the point of importation to a licensed Customs warehouse. Other profile configurations may not automatically place an impediment to the transfer or release of cargo depending on the risk that the profile is designed to treat.

3.12 When the NPC officer is confident that the profile or alert will behave as expected and produce neither too many nor too few matches, it is authorised by an NPC officer, activated in the ICS production environment and the profile owner is informed of this via email.

3.13 The ANAO reviewed the processes relating to the creation, testing and approval of profiles and alerts and is satisfied that the concerns raised in previous audits regarding profile testing have been addressed through the establishment and operation of the NPC. The NPC has significantly improved the day-to-day creation and administration of alerts and profiles. However, the ANAO observed shortcomings in the processes for reviewing and evaluating the effectiveness of profiles and alerts after they have been introduced into the ICS.

Profile matching, evaluation and examination

Illicit drugs, precursors and terrorism risks

3.14 The Border Targeting Branch's focus in using profiles is to detect illicit drugs, precursors and terrorism-related goods and intercept these goods at the border. When a profile or alert matches a transaction, an automatic notification is sent to the profile owner who must then evaluate it and decide upon a course of action. If the profile owner assesses that the cargo is low-risk (or is not a 'true' match), he or she can 'acquit' the match and any 'hold' which may have been placed on it will be lifted, permitting the cargo to be delivered. The profile owner may undertake further research before reaching a decision, such as requiring the importer to submit additional information.

3.15 If the profile owner decides that a physical examination of the cargo is required, he or she will raise an examination request in the Examination Data Management System (EXAMS). This system will forward the request to either an air or sea cargo examination team. In the case of containerised sea cargo, examinations are carried out at one of Customs and Border Protection's Cargo Examination Facilities (CEFs).[68] Air cargo will be examined at the premises at which it is being held (generally a licensed depot), but it may be moved to a CEF for examination if it is a large item or if a covert examination is required.[69]

3.16 In raising the request in EXAMS, the profile owner will allocate a priority rating. Priority 1 (or P1) is applied to cargo that is considered to be of extreme risk and mandates an x-ray and full unpack of the cargo. P2 (high-risk) articles will be x-rayed and subjected to a partial unpack.[70] P3 (medium risk) consignments are x-rayed and may be unpacked if the x-ray reveals anomalies in the cargo.

3.17 In requesting an examination, the profile owner may communicate information about the consignment through EXAMS that may assist the cargo examiners. This might include the reason the examination is being requested and an indication of what the cargo is suspected to contain or any specific intelligence as to the possible method of concealment. The result of the cargo examination is also recorded in EXAMS.

Cargo processing, regulated trade and revenue risks

3.18 As previously discussed, Compliance Assurance Branch and Trade Policy and Regulation Branch are responsible for risks relating to prohibited and restricted goods and evasion of revenue. The process of match evaluation is similar to that for Border Targeting Branch profiles, but as the goods involved may be legitimately imported, the need to intercept the goods prior to importation is not as acute as it is for weapons or illicit drugs. Many Compliance Assurance Branch and Trade Policy and Regulation Branch profile

---

68 Container Examination Facilities are located in Sydney, Melbourne, Brisbane and Fremantle.

69 A covert examination is one that is undertaken without the knowledge or permission of its owner. Examinations and inspections undertaken against Border Targeting Branch risks are generally covert. This contrasts with programmed examinations, which are those that are undertaken with the knowledge of the owner or broker and often with them in attendance. These examinations are used by Compliance Assurance Branch to treat their risks.

70 In the sea cargo environment this might consist of opening the back of the container or making a tunnel through the contents of the container.

matches are able to be resolved without the need to examine the goods. Examples of this are goods that may require a permit to be imported (for example, some types of medicines, such as codeine), goods where the declared value is lower than might be expected for the nature of the goods compared with their weight, or goods for which a concessional rate of customs duty has been claimed. In such cases, the profile owner may be able to resolve the issue through requiring the importer or broker to provide copies of relevant commercial documents.

3.19 Where a Compliance Assurance Branch or Trade Policy and Regulation Branch profile owner has been unable to resolve his or her concern about the goods and considers that a physical examination of the goods is required[71], an examination request is raised in EXAMS and the importer or broker advised that a 'programmed examination' is required. A programmed examination may be conducted at a licensed Customs warehouse or depot or (subject to Customs and Border Protection's agreement) at the premises of the owner of the goods. In this latter case, the owner of the goods will be charged for the cost of the examination based on the distance travelled by the officers and the time taken for the examination.

Community Protection Profiles

3.20 Trade Policy and Regulation Branch is also responsible for Community Protection Profiles (CPPs). Matches are triggered when the tariff classification on the Full Import Declarations matches a pre-determined CPP in the Cargo Risk Assessment module.

3.21 When a CPP is triggered, the import declaration match is not automatically passed to a Compliance Assurance Branch workgroup for evaluation, as is the case with 'normal' profiles. Rather, a 'community protection question' must be answered by the person who is lodging the import declaration. The import declaration match is passed to a workgroup for evaluation if the response to the question indicates a high risk.

3.22 There are currently 110 pre-determined community protection questions which are linked to 133 CPPs that use tariff classification codes as a match criterion for goods that may be (or may contain) prohibited or restricted

[71] An example of this would be where the goods have been described as knives: they may be cutlery or they may be prohibited knives (such as flick knives or some types of hunting knives).

goods.[72] Customs and Border Protection is generally reliant on the importer (or the Customs broker) truthfully answering this question to assess the risk, although other profiles may still target the goods based on other criteria (such as a known entity).

3.23 A further 75 CPPs refer import declaration matches to Compliance Assurance Branch workgroups for evaluation automatically without a community protection question being asked. These profiles use tariff classification codes as match criteria for goods which are prohibited or restricted (such as goods requiring a permit or licence).

Profile and alert monitoring and periodic evaluation of effectiveness

3.24 Although the number of profiles and alerts fluctuates, at any given time there are between 2 000 and 2 500, with approximately 1 500 of these directed against higher order border risks. The triggering of an alert or a profile always represents a resource cost to Customs and Border Protection. This cost may be trivial if the profile owner can easily determine that the transaction does not actually match the parameters of the profile or alert. In other cases, the profile owner may need to undertake further investigation (both within Customs and Border Protection's own systems and externally) and the evaluation may take some time. Where the profile owner considers that a physical examination of the cargo is necessary, this can involve a substantial amount of work for a number of officers, particularly sea cargo containers, which can hold up to 40 tonnes of cargo.

3.25 Conversely, a profile or alert which rarely or never matches can suggest either that the risk that led to the profile or alert being created does not exist or that the risk exists but that the criteria in the profile or alert are inadequate. In either case, the performance of the profile or alert can provide Customs and Border Protection with useful information about the risk environment.

3.26 In this context, it is important that Customs and Border Protection examines the effectiveness of profiles and alerts at both the individual level and more widely in a strategic context. In the discussion below, the ANAO

[72] For example, if the tariff classification is 4901.99.90 (a classification covering books), the question asked is 'Do any of these goods contain objectionable material as described by Regulation 4A of the Customs (Prohibited Imports) Regulations?'

has referred to the 'day-to-day' examination of profiles as 'monitoring' and the broader strategic examination as 'evaluation'.

Monitoring of profiles and alerts

3.27 Profile owners are responsible for monitoring the performance of the profiles they have created. As the recipient of matches against profiles, they are best placed to make an assessment of whether the profile is producing too many or too few matches, based on their experience and knowledge. While the NPC Business Practice Statement notes that the NPC can assist profile owners in refining profiles or alerts, profile owners are not given any guidance or instruction about their responsibility to monitor and manage the performance of 'their' profiles or alerts. In July 2011, Customs and Border Protection advised that:

> A review of Instructions and Guidelines is in progress to support impending changes to profile governance arrangements [see paragraph 3.45], in addition to the development of a CRE report to support profile monitoring and evaluation. Depending on the delivery timeframe for the CRE report, finalised I&Gs are anticipated by the end of the year.[73]

3.28 When profiles or alerts are created, the profile owner is asked to specify the period for which it should remain current. This is sound practice, since it mitigates the risk of profiles and alerts remaining in the ICS indefinitely without consideration of whether they are still producing useful results. Under previous arrangements, the profile owner would be notified by email 14 days prior to the profile or alert expiry date. The instruction stated that upon receiving such a notification, the profile owner was to:

- review the profile, including limits to ensure all the information is current and accurate and the risk is still valid;
- review the number of matches and results and assess if the profile has been effective; and
- advise the NPC of what they would like done with the profile (extend and/or amend or deactivate).

[73] The Corporate Research Environment (CRE) is an application which allows users to construct and run queries over a number of Customs and Border Protection databases, including the ICS. Instructions and Guidance (I&G) are a suite of documents on the Customs and Border Protection intranet which provide instructions and procedures to staff.

3.29 If the NPC did not receive a response to the notification email within seven days, the profile would lapse. Even if the profile owner did not routinely review the profile or alert during its currency, this procedure confirmed that it was done prior to the expiry of the profile or alert. This was a simple method to subject profiles to periodic review by the profile owner. However, under current arrangements, the NPC does not send a reminder that the profile or alert is about to expire. The current instruction states that 'as part of the new 'self management' capabilities of SharePoint[74], it is the profile owner's responsibility to ensure that their profiles are maintained and renewed before expiry'.

3.30 The NPC SharePoint site allows profile owners to view 'their' profiles and obtain a print-out of those that are due to expire within the next 21 days, but this places the onus on the profile owner to remember to check the list or to maintain a separate record of when his or her profiles are due to expire.

3.31 When asked about the reasons behind this policy change, Customs and Border Protection advised that the:

> Reduction of profile management resources has necessitated a change in business process. The responsibility is now on the profile owner to manage their profile, this has had a positive "empowerment" effect and with planned reporting assistance we feel a better outcome has been achieved. The core role of the National Profiling Centre concentrates on the expertise of profile construction, creation and client advice with reduced administration.

3.32 The lack of warning that a profile is about to expire creates the risk that a profile may expire without the profile owner being aware of it. Customs and Border Protection advised in July 2011 that it is currently investigating a range of capabilities in SharePoint to assist clients with profile management, including having regular profile performance reports available to profile owners.

Evaluation of profiles and alerts

3.33 In addition to the routine monitoring of individual profiles, it would be sound practice for Customs and Border Protection to have in place

[74] SharePoint is a Microsoft software application which allows the creation of a centralised intranet portal on a corporate network. It also has some workflow capabilities.

arrangements to assure itself as to the overall performance of its profiles and alerts. In this context, Customs and Border Protection could examine:

- what proportion of profiles and alerts lead to an examination?
- what proportion of profiles and alerts lead (or do not lead) to a detection?
- are there any particular characteristics of 'successful' profiles and alerts and can they be applied to other profiles and alerts?
- are particular types of profiles more successful than others (for example, profiles based on a source country versus alerts based on an entity name)?
- how many profiles are producing an unusually high (or low) number of matches relative to the average?

3.34 The ANAO has expressed concern in a number of previous audits about the lack of an effective mechanism for periodically evaluating the overall effectiveness of profiles and alerts. Appendix 3 summarises these audits and the ANAO's observations.

3.35 In 2009, Customs and Border Protection undertook an internal audit of the NPC. The report contained the following observation:

> Although outside the scope of this engagement, Internal Audit notes that the evaluation of individual profiles is extremely inefficient due to:
>
> - the number of systems from which data must be extracted for analysis;
> - the difficulty of extracting data from these systems; and
> - the limited capability to perform the extraction and analysis (a system called Brio–Hyperion is used to extract and manipulate data: the system is very difficult to use and only one or two staff members in the organisation have the requisite knowledge to undertake the required procedures).
>
> As a result of these difficulties, an evaluation of individual profiles has been rarely undertaken to date. This represents a significant gap in the management of profiles and profiling, as there is limited assurance available that profiling is efficiently and effectively contributing to differential intervention.

3.36 On 3 March 2009, the CEO of Customs and Border Protection approved the establishment of a Business Intelligence Taskforce. The stated purpose of the Taskforce was to deliver an enterprise Business Intelligence capability by

providing more accessible, timely and accurate information products that would support border risk management through first focusing on the cargo business process.

3.37 In the Business Case for the Business Intelligence Taskforce, profile evaluation was identified as a 'Business Problem/Opportunity'. It noted that the profiles used to manage cargo risk were not able to be adequately measured for relative performance or cost of administration. Also, there was no way to accurately judge the effectiveness of the profile results as the performance data was difficult to access or did not exist.

3.38 The Taskforce's Business Case proposed the development of a 'consolidated end-to-end cargo process data warehouse'. The desired outcome would allow managers to:

- review, compare and adjust all types of import profiles for relative effectiveness;
- reduce overmatching and mismatching;
- reduce unnecessary interventions; and
- more easily relate profile to risk and program.

3.39 During the audit, Customs and Border Protection advised that effectiveness reporting on profiles still remains an issue. However, it also advised that:

> The Executive Committee considered the future of the Business Intelligence Taskforce in April 2010. It determined the Business Intelligence Taskforce would be paused. The Enterprise Architecture Project Scope was expanded to consider future projects to replace capabilities being investigated by the Business Intelligence Taskforce. Capabilities, such as a Teradata consolidation table and Hyperion reporting functionality[75] was delivered and is still used as part of profile reporting.

3.40 In the absence of an endorsed corporate approach to periodic profile and alert evaluation, Border Targeting Branch has undertaken ad hoc analysis of the effectiveness of profile and alert matches in air cargo. In particular, it examined the number of profile matches that had produced little or no results.

[75] Teradata is a proprietary software application used for data warehousing and analytic applications. Hyperion is a proprietary business intelligence software application.

The period of analysis was from 1 January 2009 to 1 September 2009 and related to a number of specific alerts. The results of this analysis are shown in Table 3.1.

Table 3.1

Selected air cargo profiles with few positive results

No. of profiles	No. of matches	No. of physical examinations	No. of positive results
12	104 463	5 074	18
23	135 309	4 339	0

Source: ANAO analysis of Customs and Border Protection data.

3.41 The table demonstrates that in the case of 35 profiles, there were almost 240 000 matches in an eight month period, leading to almost 10 000 physical examinations with 18 positive results. While there is no guarantee that all profiles and alerts will yield a positive result (particularly those which are based on a hypothesis or risk), this result represents a significant resource expenditure that produced little or no benefit.

3.42 Customs and Border Protection has reviewed the way in which it evaluates the effectiveness of profiles for both Border Targeting and Compliance Assurance. A substantial amount of effort has been invested in these reviews and a draft *National Profile Governance Strategy* (dated 4 June 2010) made the following observations:

- in the cargo sphere, there are currently over 2000 profiles. These profiles collectively create a considerable number of matches daily, with each match consuming staff time to evaluate;
- there has been relatively little rigour or science applied to profile management, with Customs and Border Protection taking a 'best guess' approach to profile creation and identification of over and under matching profiles;
- poorly developed or executed profiles will impact on legitimate trade and workload with little or no positive impact on the agency's ability to manage risk at the border.

3.43 The document includes a recommendation that a profile governance board be established that 'will provide quality control within the profiling function as well as assisting with decision making'.

3.44 A March 2011 *Profile Governance Board* document states that profiling is the main risk management tool used by Customs and Border Protection across all environments and that profiling is a critical function within the cargo targeting business process. It proposes that reviewing the risk and performance effectiveness of alerts will be a mandatory process. Alerts should, in general, be placed for three to six months. All alerts should be reviewed after three months or upon feedback from the profile owners about overmatching/mismatching.

3.45 In July 2011, Customs and Border Protection advised the ANAO that the Profile Governance Board arrangements had been ratified and the Board had met. Work had commenced on analysis of top 10 and bottom 10 performing profiles as part of identifying key elements that make profiles effective. The Board had commenced periodically evaluating the overall performance of profiles and alerts. This was being done against high-risk areas. Over time, (through the expansion of the profile governance arrangements) other risk areas would be addressed.

3.46 The establishment of the Profile Governance Board will coordinate what were previously fragmented approaches to profile and alert evaluation and help to improve the effectiveness of profiles and alerts as well as reducing the number of cargo examinations which produce no result. While this is a 'work in progress', it is evident that more intellectual rigour has recently been applied to the task, especially with respect to using statistical techniques and data mining to identify opportunities for improvement. A detailed implementation plan for reviewing profile effectiveness was completed in July 2011.

Conclusion

3.47 Customs and Border Protection has used profiles and alerts to attempt to identify high-risk sea and air cargo imports for many years. Over that time, it has made a number of improvements to its processes for the creation, testing and introduction of them into the ICS production environment. In particular, the creation of the National Profiling Centre in Sydney in 2008 helped to resolve previous concerns expressed by the ANAO in a number of audits. The NPC allows Customs and Border Protection to have standard operational procedures across the organisation which were lacking under the previous region-by-region approach. However, although profile owners are expected to

monitor and manage the profiles for which they are responsible, they have not been given guidance or instruction on how this should be done.

3.48 Customs and Border Protection has yet to fully develop and implement a model for the systematic evaluation of profiles at the whole-of-organisation level, although it has established a Profile Governance Board to progress this work. While it is not possible for Customs and Border Protection to know what proportion of prohibited and restricted sea and air cargo imports cross the border undetected, the effective evaluation of profiles and alerts combined with the analysis of inspection and examination outcomes will assist to better target high-risk consignments and reduce the number of inspections and examinations that yield no result.

4. Treatment of Risks Relating to Illicit Drugs, Precursors and Terrorism

This chapter analyses Customs and Border Protection's implementation of its intelligence-led, risk-based cargo intervention strategies for the highest risk categories of goods.

Introduction

4.1 Customs and Border Protection's Border Targeting Branch is responsible for targeting and identifying prohibited goods, which represent the highest levels of risk (illicit drugs, precursors and terrorism-related goods). Given the potential harm that such goods can cause and the fact that their importation, possession and use are serious criminal offences, the most effective 'treatment' is to detect them in the cargo stream and seize them before they enter the country.

4.2 Prior to 2001, Customs and Border Protection did not have any set target for the number of physical interventions that it carried out. Sea, air and postal importations were selected for examination on the basis of perceived risk using profiles and alerts based on risk factors such as consignment origin or destination.

4.3 Following an outbreak of Foot and Mouth Disease in Europe in 2001, Customs and Border Protection was provided with additional funds as part of the then Government's Increased Quarantine Intervention (IQI) strategy. The IQI involved setting targets for the mass screening of all High Volume Low Value[76] (HVLV) air cargo items.[77] The desire to meet these targets meant that Customs and Border Protection tended to concentrate on a limited number of high-volume depots and warehouses because the large number of HVLV items these importers handled facilitated meeting the targets.

4.4 Between 2002 and 2004 Customs and Border Protection built Container Examination Facilities (CEFs) at Sydney, Melbourne, Brisbane and Fremantle to facilitate the increased screening of sea cargo containers. Specific targets for

[76] HVLV imports are generally bulk document or bulk mail order consignments imported by air express couriers. At that time, low value meant less than $250.

[77] By the use of X-ray facilities.

the number of imports to be inspected were included in Customs and Border Protection's Portfolio Budget Statements as either a percentage of imports or a specific number of imports.

4.5 The introduction of the Integrated Cargo System in 2005 and subsequent improvements in its functionality enhanced Customs and Border Protection's ability to screen and risk assess cargo at the individual consignment level, offering opportunities to more effectively distinguish between high and low-risk cargo.

Development of the Cargo Intervention Strategy

4.6 Customs and Border Protection advised that, in late 2008, it undertook a review of 'existing intervention approaches in sea and air cargo to ensure it had the most effective and efficient approach in place to deal with the current risk environment and to deal with future challenges'.[78] This review resulted in Customs and Border Protection submitting two New Policy Proposals (NPPs) for consideration by government in the 2009–10 budget context: *A refined risk-based approach for air cargo* and *A refined risk-based approach for sea cargo.* Taken together, these NPPs were known as the Cargo Intervention Strategy (CIS). Both NPPs proposed a reduction in the number of consignments subject to mass screening, allowing a greater concentration on high–risk importations. The proposals identified savings of $49.5 million over four years through the proposed reduction of 63 staffing positions.

4.7 The ANAO examined Customs and Border Protection's current strategy for dealing with these goods and the outcomes of its intervention activities.

4.8 The CIS adopts a four part approach to cargo intervention. These are:

- targeted examinations under which 100 per cent of consignments identified as high-risk are physically examined;

[78] On 2 May 2011, in response to the ANAO's request for the review report, Customs and Border Protection advised that 'In relation to the reference that there was a review undertaken, this referred to a range of analysis and research into our existing approaches. There was no cumulative 'report' from this'.

- campaigns designed to treat and validate emerging risks, introduce uncertainty as to the nature of Customs and Border Protection's interventions and provide flexibility in its response capability. Campaigns may include inspections, examinations or documentary checks;
- coverage which is inspection-based activity directed primarily at treating medium risk in order to provide awareness across the environment and to provide a detection, deterrence and disruption capability; and
- sampling: a program to monitor and assess underlying rates of leakage and to provide a baseline measure to inform changes for coverage and campaign activities.

4.9 The savings that were expected to be made as a result of the proposals are set out in Table 4.1. Customs and Border Protection committed to implementing the CIS with effect from 1 July 2009.

Table 4.1

Cargo Intervention Strategy: revised inspection numbers and savings

Stream	2008–09 target	2009–10 target	Savings 2009–10 to 2012–13	
			$ million	Staff
Air	6.2 million	1.5 million	17.1	42.0
Sea	134 000 TEU	101 500 TEU	32.4	21.0
Total saving			**49.5**	**63.0**

Source: ANAO analysis of Customs and Border Protection data.

Note: Sea cargo shipping containers may either be 20 feet (6.1 metres) or 40 feet (12.2 metres) in length. For convenience, the trading community expresses all container measures in Twenty Foot Equivalent (TEU).

Targeted examinations

4.10 When a profile owner decides that a physical examination of cargo is required, dedicated sea and air cargo examination teams in Customs and Border Protection's Cargo Division are alerted to the need for an examination by an electronic notification via the EXAMS database. The level of intervention is determined by the priority assigned to the cargo by the profile owner (see paragraph 3.16).

4.11 Inspections are non-intrusive and usually involve an x-ray of the cargo (or the container in which it is located) but can also include using detector

dogs, scans or 'swab' type tests. An examination is a more intrusive search and involves either a full or partial unpack of the container and/or the opening of individual packages as is the case generally in air cargo and international mail. Depending on the strength of intelligence, an examination may involve dismantling the goods.[79] Table 4.2 shows the number of inspections and examinations conducted in 2010–11.

Table 4.2

Examinations as a proportion of inspections, 2010–11

Stream	Inspections	Examinations	Per cent
Air cargo	1 493 000	64 047	4.29
Sea Cargo	101 900	14 210	13.95
TOTAL	**1 594 900**	**78 257**	**4.91**

Source: Customs and Border Protection.

Campaigns

4.12 Campaigns are a series of nationally coordinated, targeted activities focusing on a specific risk area or location. In introducing the concept of campaigns, the CEO of Customs and Border Protection noted:

> Campaigns will be used to improve our understanding of current border risks. They will do this by testing assumptions about how we currently do our work, gathering evidence about the extent or severity of risks and by providing information about the effectiveness of our current intervention approaches.

4.13 All Customs and Border Protection officers are encouraged to submit suggestions for possible campaigns. This helps to ensure that areas of weakness or vulnerability can be brought to the attention of senior management. All suggestions are evaluated and accepted suggestions are subjected to a detailed planning process (and post-campaign evaluation). The success of a campaign is not necessarily measured by specific detections of prohibited or restricted goods. They may have more intangible benefits such as confirming or denying that a risk exists, contributing to Customs and Border Protection's intelligence holdings or simply contributing to deterrence by the

[79] For example, in July 2009, Customs and Border Protection examined a shipping container which contained six steel die casts, each weighing approximately four tonnes. The dies were opened using cutting equipment and were found to contain 144 kilograms of cocaine. Following a 'controlled delivery', three men were arrested and charged.

presence of Customs and Border Protection officers during the period of the campaign.

4.14 Customs and Border Protection conducted 24 campaigns between November 2008 and March 2011. The ANAO's review of these campaigns indicated that they provide Customs and Border Protection with a flexible and adaptable response to perceived risks and have achieved useful results.[80]

Coverage

4.15 Coverage is similar to campaigns, but is based on inspections of cargo in unknown risk areas outside of traditional high volume cargo handlers. In 2010–11, Customs and Border Protection inspected 1.38 million air cargo consignments at 243 separate depots (85 per cent of the total population). Table 4.3 provides an example of the outcome of one coverage activity.

[80] The details and outcomes of these campaigns were provided to the ANAO but are classified by Customs and Border Protection as Protected.

Table 4.3

Example of a successful outcome from coverage activity

Date	Coverage activity
17 December 2009	In the course of a coverage activity, Customs and Border Protection detected a concealment of heroin. During post detection analysis, it was determined that additional coverage activity should be scheduled for cargo from the same flight.
31 December 2009	Additional coverage activity on the identified flight detected a further three consignments containing pseudoephedrine. On the basis of post detection analysis, a profile was created.
1–2 January 2010	Profile match evaluators targeted 10 packages for targeted examination. Each package was examined and found to contain pseudoephedrine. The case was referred to Customs and Border Protection Investigations Branch.
5 January 2010	Investigations identified six addresses which were searched. The principal behind the imports was arrested and charged and this led to further intelligence on connections within criminal networks.

Source: ANAO from Customs and Border Protection information.

Sampling

4.16 As previously noted, sampling is a program to monitor and assess underlying rates of leakage and to provide a baseline measure to inform changes for coverage and campaign activities. Customs and Border Protection engaged the Commonwealth Scientific and Industrial Research Organisation (CSIRO) to assist it to design a statistically valid and practically feasible sampling methodology. Customs and Border Protection advised that the sampling program is 'currently maturing' and they are in the 'process of finalising a five year improvement strategy' for this activity.

Evaluation of the Cargo Intervention Strategy

4.17 In April 2010, an evaluation of the first six months (1 July 2009 to 30 December 2009) of the CIS was undertaken. The evaluation report noted that the confidentiality of Cabinet decisions meant that Customs and Border Protection staff were informed of the new arrangements after they were announced (May 2009), allowing only seven weeks for the CIS to be implemented. Given the reductions in staffing proposed as part of the implementation of the CIS, a workforce adjustment program to move staff to other areas within Customs and Border Protection was necessary. The report noted that there were challenges in undertaking workforce adjustment at the

same time as significant workforce changes. The report further indicated that Customs and Border Protection had invested a substantial effort in minimising the impact of the new arrangements both in terms of performance and disruption to individual staff.

4.18 Overall, the report found that substantial progress had been made to embed the CIS and deliver on the intended outcomes of scalability, flexibility, unpredictability and coverage. Detection results in both sea and air cargo were reported as being encouraging, with an increase in major detections and drug detections in air cargo, and maintenance of detection performance at the sea ports where adjustments were made.[81]

Border Targeting Branch detections

4.19 Customs and Border Protection has the dual role of facilitating the importation of legitimate sea and air cargo while detecting and, where appropriate, seizing prohibited and restricted goods. Success in fulfilling this dual role is measured by both the proportion of sea and air cargo that passes without impediment into Australia and the number, weight and types of prohibited and restricted goods that it detects. Customs and Border Protection's biennial Time Release Study 2009[82] reported that 79 per cent of sea cargo and 71 per cent of air cargo were risk-assessed prior to arrival and allowed to pass without impediment. Assessing the effectiveness of its risk management strategies with respect to prohibited and restricted goods is challenging because it is difficult to know the proportion of these goods that cross Australia's border undetected. In the face of this uncertainty, accepted practice is for agencies to assess the effectiveness of their risk assessment processes and intervention and compliance strategies. For Customs and Border Protection, this means evaluating its profiles and alerts (combined with inspection and examination outcomes) and assessing the effectiveness of the CIS and the DRRM approach to compliance.

[81] Reductions in the number of TEUs inspected were focused on Sydney (reduction of 4 051 or 10.5 per cent), Brisbane (reduction of 19 822 or 51.5 per cent) and Fremantle (reduction of 8 938 or 46.8 per cent). These ports were selected because the rate of inspection was significantly higher than at other ports.

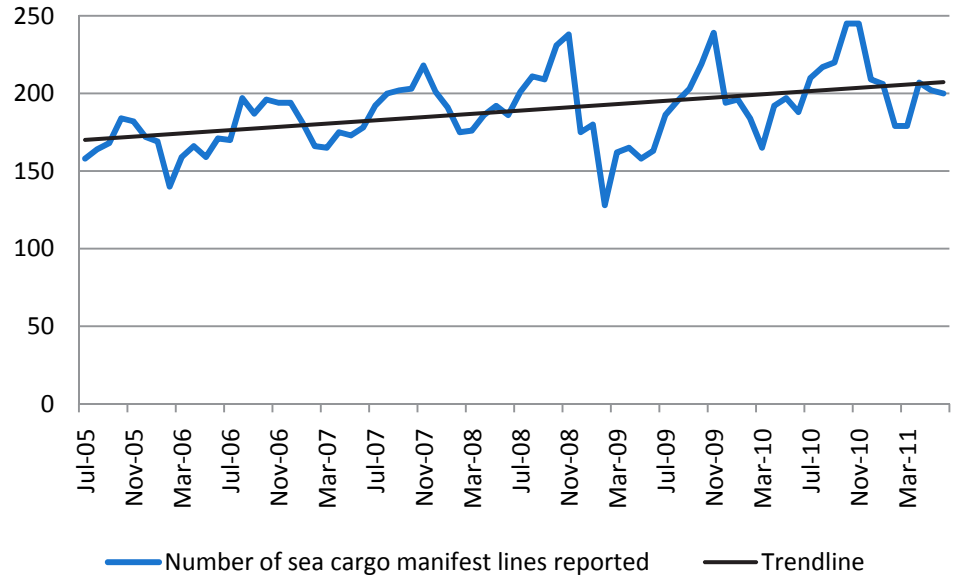
[82] <http://www.customs.gov.au/webdata/resources/files/100027_TimeReleaseStudy_WEB3.pdf>

Increases in volume of imports

4.20 The volumes of sea and air cargo imports have increased over the years. Figure 4.1 and Figure 4.2 show that the number of sea cargo manifest lines reported increased by 18 per cent between January 2006 and June 2011 while the number of air cargo reports increased by 138 per cent in the same period.

Figure 4.1

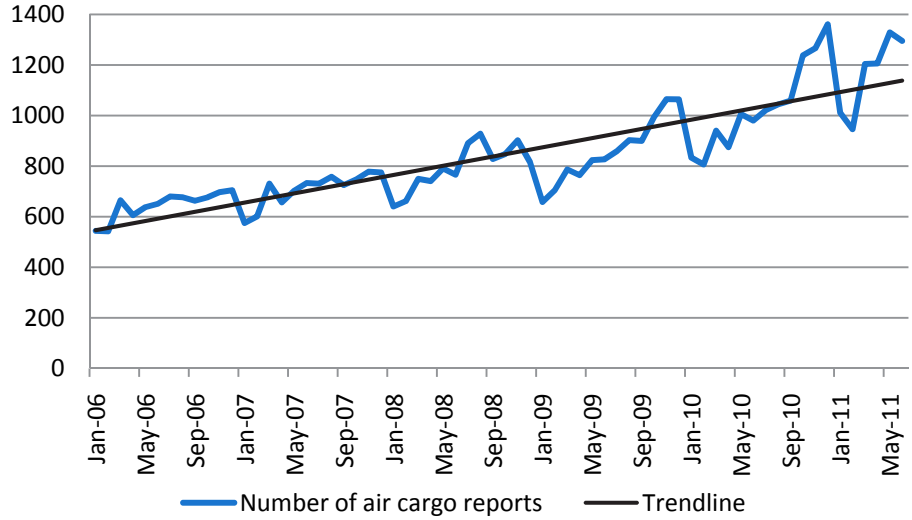
Number of sea cargo manifest lines reported, July 2005 to June 2011 (thousands)



Source: Customs and Border Protection Operations Committee Reports (various years).

Figure 4.2

Number of air cargo reports, January 2006 to June 2011 (thousands)



Source: Customs and Border Protection Operations Committee Reports (various years).

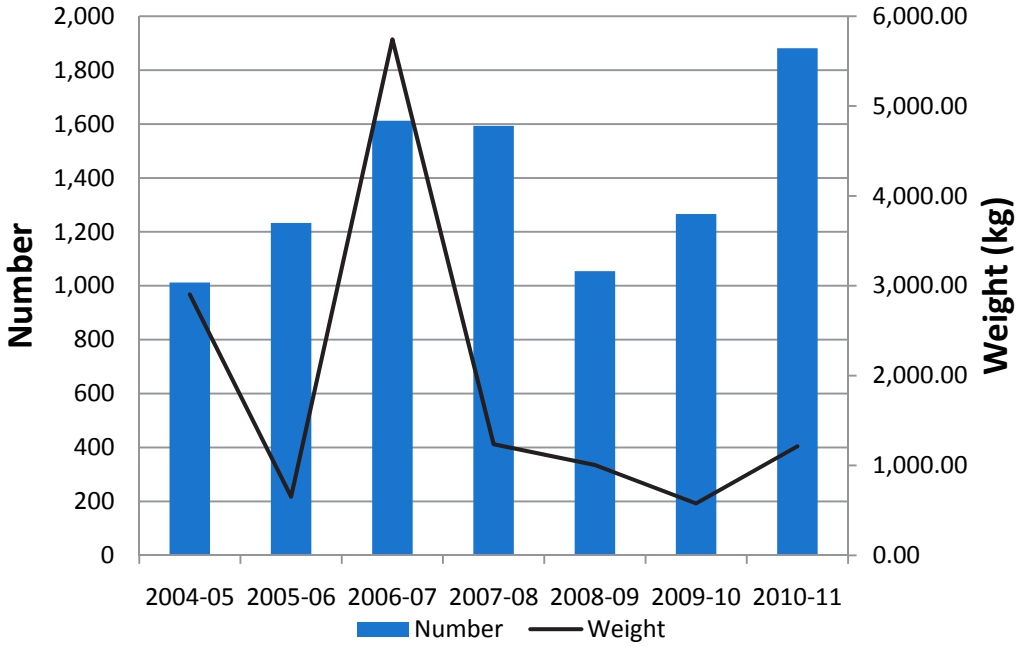
Illicit drugs

4.21 Illicit drugs are one of Customs and Border Protection's highest border risks. Figure 4.3 shows the combined weights and number of detections of the four major 'hard' drugs[83] over the last seven years.

[83] Customs and Border Protection considers the four major 'hard' drugs to be Amphetamine-type Stimulants (which include methamphetamine ('ice') and amphetamine), cocaine, heroin and 3,4-Methylenedioxymethamphetamine (MDMA or ecstasy).

Figure 4.3

Detections of four major drugs: air, sea and post, 2004–05 to 2010–11



Source: Customs and Border Protection Operations Committee Reports (various years) and Customs and Border Protection's 2010–11 Annual Report.

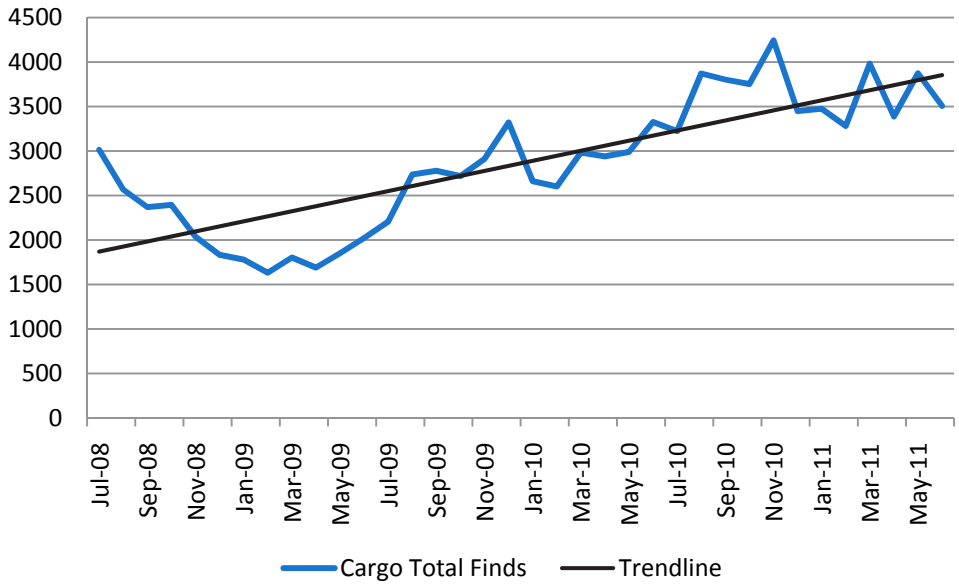
4.22 Figure 4.3 shows that the number and weight of detections for the four major 'hard' drugs have varied significantly over time. There can be a number of reasons for this: Customs and Border Protection recognises that it does not detect all drugs being imported into the country and drug use is subject to changes in popularity of drug types over time (which is also influenced by the availability of supply). Consequently, it is difficult to assess the Border Targeting Branch's performance on the basis of this single indicator, although it is worth noting that since the introduction of the CIS in July 2009, both the weight and number of drug detections have increased.

All cargo detections

4.23 In October 2011, Customs and Border Protection provided the ANAO with data covering 'Cargo Total finds'[84], detailed in Figure 4.4.

Figure 4.4

Cargo total finds



Source: Customs and Border Protection.

Note: Excludes referrals of potential quarantine items to AQIS.

4.24 Figure 4.4 shows an increasing trend in the number of 'finds' as defined by Customs and Border Protection. However, this aggregate figure includes finds made in international mail, which account for approximately 90 per cent (by number) of all finds. As previously noted, the scope of this audit did not include international mail. Further, the CIS did not extend to international mail. Consequently, the ANAO analysed data from a database used to inform

[84] 'Finds' is defined by Customs and Border Protection as 'any examination result determined to be a breach of Customs related law, whether or not the matter is further actioned. In this context means all prohibited, smuggled and undeclared goods and includes drugs, precursors, weapons, tobacco, currency, wildlife and counterfeit goods but could also mean goods which have been misdescribed'.

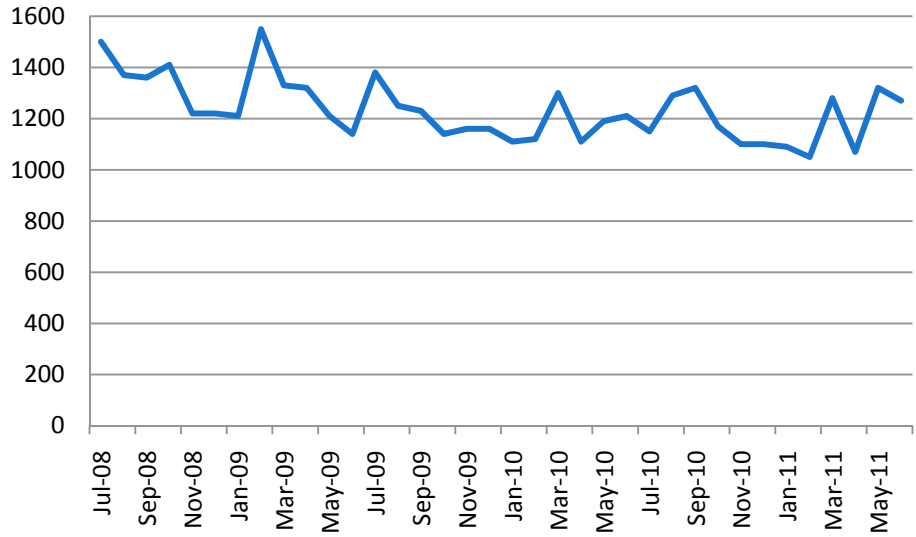
reports to the Customs and Border Protection Operations Committee (which is chaired by the Chief Operating Officer). The charts below indicate the number of examinations and detections in sea and air cargo respectively.

Sea cargo detections

4.25 Figure 4.5 shows the number of TEUs examined by Customs and Border Protection's Cargo Examination facilities between July 2008 and June 2011 while Figure 4.6 shows the number of resulting 'finds' for the same period.

Figure 4.5

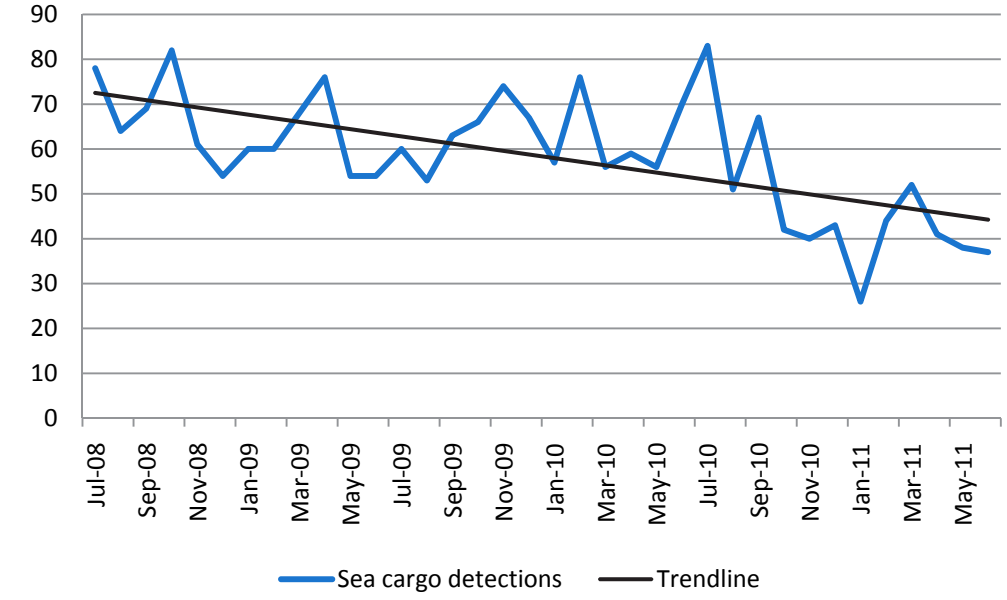
Number of TEU physically examined: July 2008 to June 2011



Source: Customs and Border Protection Operations Committee Reports (various years).

Figure 4.6

Sea cargo detections: July 2008 to June 2011



Source: Customs and Border Protection Operations Committee Reports (various years).

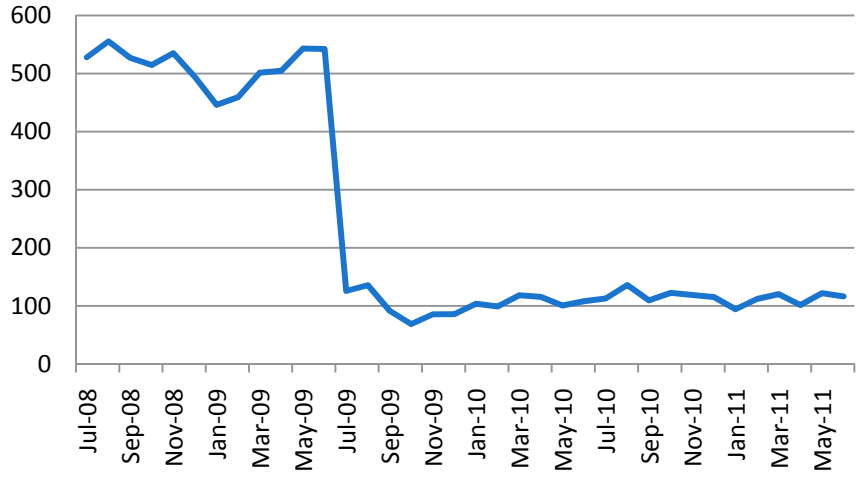
Note: Excludes referrals of potential quarantine items to AQIS.

Air cargo detections

4.26 Figure 4.7 shows the number of air cargo inspections between July 2008 and June 2011. The significant drop in July 2009 is reflective of the introduction of the CIS (see Table 4.1). Figure 4.8 shows the number of detections of prohibited goods in air cargo between July 2008 and June 2011.

Figure 4.7

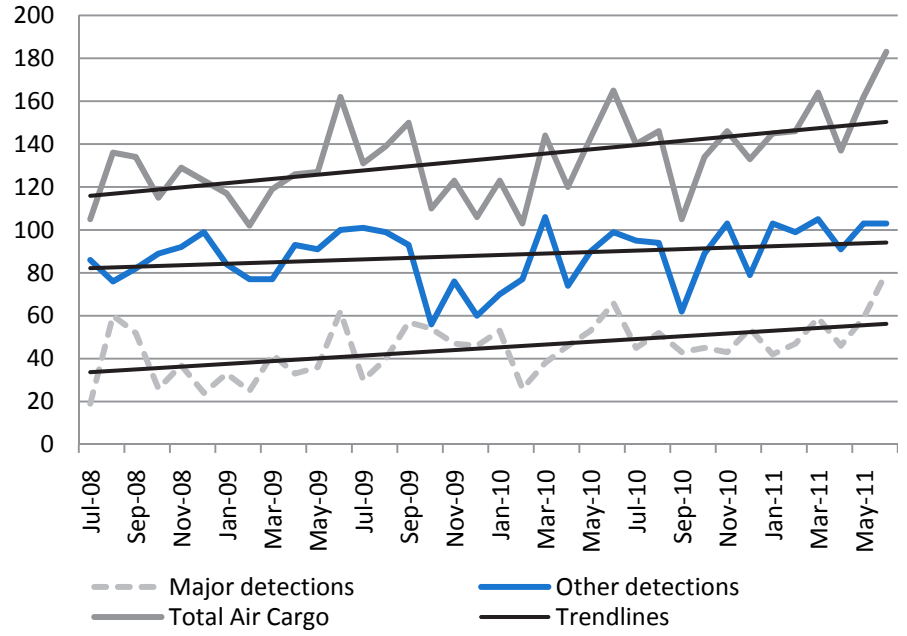
Air cargo: number of inspections, July 2008 to June 2011 (thousands)



Source: Customs and Border Protection Operations Committee Reports (various years).

Figure 4.8

Air cargo: major, other and total detections, July 2008 to June 2011



Source: Customs and Border Protection Operations Committee Reports (various years).

Note: Excludes referrals of potential quarantine items to AQIS.

4.27 Figure 4.8 indicates that the air cargo trend for 'other', total detections and 'major' detections has increased, notwithstanding the significant drop in examinations. However, the ANAO considers that this result needs to be treated with caution because of the broad definition of 'major detections'. The definition includes:

- all drug or precursor detections, irrespective of quantity;
- all fauna detections;
- anything which may be the subject of a media release or media interview;
- anything with a suspected terrorism significance; and
- any Section 33 breaches.[85]

4.28 This is a very broad definition and the ANAO's examination of EXAMS data showed that finds included in the 'major' detections shown in Figure 4.8 were the following items:

- three separate instances of a single credit card suspected of being counterfeit;
- one package containing two tubes of toothpaste containing Xylitol;
- one bottle of growth hormone; and
- one bottle of *Liddell Vital Male Sexual Energy with Testosterone* oral spray (30ml).

4.29 Customs and Border Protection's EXAMS system also recorded the following items as 'major' detections (albeit not in air cargo):

- two cannabis seeds;
- 0.6 grams of cocaine;
- 599 separate detections of one sling shot;
- one empty bullet casing;
- 844 separate detections of one flick knife; and

[85] Section 33 of the Customs Act relates to the movement without authorisation of goods subject to the control of Customs.

- 350 separate detections of one replica gun.

4.30 In July 2011, Customs and Border Protection advised that 'the definition of "major" is an internal cargo working definition and is not used in other performance reporting. It is not used in the Annual Report'. However, the ANAO observed that Customs and Border Protection has used the term in reporting to its Executive, and to its Minister. The term is potentially misleading, as a reader might interpret it as denoting a find of particular size or importance. In response to the ANAO's suggestion that Customs and Border Protection review its use of the term 'major', it advised:

> Customs and Border Protection will apply a higher level of EXAMS QA[86] vetting of the Major/Minor fields to improve accuracy while at the same time review the definition or develop a new measure to obtain a solution that can be consistently applied across streams and still provide capability to measure CIS effectiveness and workloads.

Conclusion

4.31 In July 2009, Customs and Border Protection introduced its Cargo Intervention Strategy (CIS) which places greater emphasis on the use of intelligence and techniques such as statistical analysis and data mining, coupled with profiles and alerts to identify high-risk consignments. While it still has targets for the number of examinations, these have decreased to 1.5 million for air cargo consignments and 101 500 TEU. The CIS has also seen the reduction of 63 staff and a consequent saving of $49.5 million over the four years from 2009–10 to 2012–13.

4.32 The ANAO's analysis shows that there has been an increase in the total number of detections[87] in air cargo (from an average of 125 per month in 2008–09 to 145 in 2010–11) and a decrease in sea cargo (from an average of 65 per month in 2008–09 to 47 per month in 2010–11) over time. While detection outcomes may indicate some measure of success, the level of this success is not known as the undetected population of prohibited and restricted goods is also unknown. To determine how effective the CIS has been in identifying high-risk cargo, Customs and Border Protection will need to evaluate the

[86] Quality Assurance.

[87] This includes prohibited items, it does not include referrals of potential quarantine items to AQIS.

effectiveness of its profiles and alerts combined with the analysis of inspection and examination outcomes.

5. Treatment of Risks Relating to Cargo Processing, Regulated Trade and Revenue

This chapter analyses Customs and Border Protection's implementation of its intelligence-led, risk-based cargo intervention strategies for risks relating to cargo processing, regulated trade and revenue collection. It also discusses Customs and Border Protection's process for estimating revenue leakage and its use of sanctions.

Introduction

5.1 In relation to cargo processing, regulated trade[88] and revenue collection, the Compliance Assurance Branch is responsible for ensuring that:

- reporting of all cargo and vessels arriving in Australia is accurate and timely;
- licence and permit requirements, prohibitions and restrictions in relation to regulated goods are complied with;
- the correct amount of customs duty, GST and other indirect taxes[89] is paid; and
- accurate and reliable data on trade statistics is provided.[90]

5.2 Due to the range of risks and the varying consequences if they remain untreated, the Compliance Assurance Branch has developed a number of risk treatments. These treatments, which include education, campaigns, pre-clearance monitoring and more focused audits were examined by the ANAO. The Compliance Assurance Branch's approach to estimating revenue leakage (that is, the difference between customs duty and GST actually paid and the amount that should have been paid) and the use of sanctions to encourage compliance were also examined.

---

88 Regulated trade includes prohibited and restricted goods.

89 Such as Luxury Car Tax and Wine Equalisation Tax.

90 Data on trade statistics is provided to the Australian Bureau of Statistics for use in the preparation of National Accounts data.

New approach to compliance

5.3 Customs and Border Protection's approach to compliance has evolved over time. Previously, the approach was to undertake comprehensive audits of companies involved in the import industry. These audits are time-consuming and resource-intensive. In the face of diminishing resources and increasing import volumes, Customs and Border Protection recognised the need to identify a wider range of treatment options that more effectively used the level of risk to guide its compliance activities. In August 2010, Customs and Border Protection stated:

> To ensure the most effective use of diminishing resources, Compliance Assurance Branch has moved from verifying the overall level of compliance of an entity to specifically targeting risk and associated transactions. That is, Compliance Assurance Branch is unable to invest significant resources in an activity unless evidence is available to demonstrate significant risk.

5.4 This statement was made following the implementation of the *Enhanced Compliance Assurance Response to Revenue Risk* 2010–11 New Policy Proposal (NPP). This NPP identified savings of $8.1 million over the four years from 2010–11 to 2013–14 through a reduction to Compliance Assurance Branch's staffing of 24 (or approximately 10 per cent).[91]

5.5 On 21 July 2010, the National Manager, Compliance Assurance informed all Compliance Assurance Branch staff that a new business model was to be adopted in response to the reduction in staff and the transfer of the administration of warehouse Excise Equivalent Goods[92] to the Australian Taxation Office. The new business model was also consistent with the overall rationale for Customs and Border Protection to adopt an intelligence-led, risk-based approach to its work. One of the most significant aspects of the new business model was the introduction of a Differentiated Risk Response Model (DRRM), which is summarised at Figure 5.1.

---

[91] This NPP was unrelated to the two NPPs covering the introduction of the Cargo Intervention Strategy (see paragraph 4.6).

[92] Excise is a duty paid on goods manufactured domestically, whereas duty is paid on imported goods. In the Australian context, excise is payable on locally produced petroleum, alcohol and tobacco. Excise Equivalent Goods are petroleum, alcohol and tobacco which is imported. When the Excise Equivalent Goods warehouse administration function was transferred to the ATO, the staffing resources attributable to the function were also transferred.

Figure 5.1

Compliance Differentiated Risk Response Model Summary

The Compliance Differentiated Risk Response Model Summary

	Border Protection Differentiated Risk Model	Compliance Business Model Criteria	Compliance Assurance Treatments	Expected Outcomes
High risk disruption program	**Prevention and Disruption** Primary objective is to **prevent** or **disrupt** by **targeting** illegal activities, deliberate non compliance associated with the reporting and handling of cargo and declaration of goods or introduction of serious threats to consumers. Emphasis is on disruption and dismantling of systemic and deliberate non-compliance. *Behavioural indicators include:* • *deliberate non-compliance;* • *illegal activity;* • *non-production or manipulation of records.*	**Complex Non Compliance** • Deliberate non compliance • Intentional Disregard **High – Extreme Regulatory Risks** • High consequence Prohibited / Restricted Goods (consumer safety & UN sanctions) • Cargo Control (recidivists) • IPR Goods (recidivists) • Precursors • Illicit Drugs • Revenue return >$50,000	**Pre-Clearance Intervention Activities - s**pecific entity, commodity or process-related. **Audits/Desktop Audits -** targeting high risk/high complexity regulatory risks. **Complex Case Management - c**omposite intervention strategies dealing with high/extreme risk entities, commodities or processes, or highly complex compliance problems including audit and operational activity. **Campaigns** based on specific high/extreme risk entities, commodities or processes.	• Critical import and export prohibitions (eg suspect UN sanctions) enforced • Serious consumer safety risks resolved • Systemic cargo control vulnerabilities/serious breaches exposed and treated • Significant revenue recovery • Key information and intelligence obtained on criminal networks • Urgent implementation of new controls or C&BP business process • Sanctions • Referrals for prosecution • Penalties • Seizure of goods • Suspend / cancel licences
Risk Directed Intervention Program	**Reduction** Primary objective is to **detect** and **deter** by **profiling** client transactions and behaviours. Emphasis is on deterrence of reckless non compliance by testing and responding to identified risk parameters associated with the reporting and handling of cargo, declaration of goods and consumer/economic harm associated with regulated goods. *Behavioural indicators include:* • *reckless or persistent non-compliance;* • *poor systems or controls or records.*	**Non Compliance Intervention** Reckless non compliance **Medium – High Regulatory Risks** • Medium consequence Prohibited / Restricted Goods (consumer safety) • Cargo Control s33 breaches • IPR Goods (commercial quantities) • Revenue return >$5,000<$50,000	**Pre-Clearance Intervention -** entity, commodity or process related targeting medium/high regulatory risks. **Customs Places visitation program -** targeting medium – high risk premises. **Campaigns -** based on medium to high regulatory risks. **Audits -** targeting medium/high complexity regulatory risks. **Desktop Verification Exercises -** targeting medium/high regulatory risks. **Leverage / Saturation Activities**	• Revenue recovery • Detain goods • Hold cargo • Compliance improvement strategies • Strategic information opportunities on entities identified • Design of controls and/or business processes • Sanctions • Additional Conditions to Licences • Non Compliance Records • Warnings • Penalties
Compliance Monitoring Program	**Containment** Primary objective is to **monitor** the health of the system, provide help to **improve** future compliance and **detect** and **deter** inadvertent non compliance in the reporting and handling of cargo, declaration of goods and controls around regulated goods. *Behavioural indicators include* • *ineffective compliance efforts;* • *poor knowledge of obligations;* • *occasional mistakes;* • *poor record-keeping;* • *late or inaccurate reports.*	**Health of the System Assurance** • Inadvertent non compliance • Failure to take reasonable care **Low - Medium Regulatory Risks** • Minor consequence Prohibited / Restricted Goods • Cargo Control documentary irregularities • IPR Goods (no consumer safety risk) • Revenue return <$5,000	**Compliance Monitoring Program** • Declaration Checks • Export EDNs Checks • Cargo Reports Checks • Refunds **Data Monitoring** • identification of risk / entities via data mining activities. **Customs Places monitoring program** • Cargo Inspections • Licensing Program • Education, help and advice • Leverage Cargo Intervention Strategy **Campaigns** • Health of the System monitoring • Probing / Validating	• Estimate of control and revenue leakage • Minor revenue recovery • Cargo not held • Client engagement • Environmental coverage • Proposals for new control and/or business process design • Sanctions • Non compliance records • Warnings • Penalties

Source: ANAO from Customs and Border Protection information.

5.6 The DRRM is designed to allow Compliance Assurance Branch to select a treatment which is proportionate to the perceived level of risk. For example, the use of audits is confined to high-risk entities or activities, whereas the provision of education, help or advice is an appropriate treatment for lower

risks where there is no evidence of deliberate non-compliance. Figure 5.1 identifies the risk treatments available to Compliance Assurance Branch staff under the DRRM. The treatments are described in more detail in Appendix 2. The ANAO considers that the increased range of treatments is consistent with an intelligence-led risk-based approach.

Training and guidance on the new approach

5.7 The DRRM introduced a number of new or changed risk treatments. In this context, it is important that staff have access to complete and up-to-date training materials. At the time of the audit, the reference material available to Compliance Assurance Branch staff on the Customs and Border Protection intranet comprised a manual titled 'Compliance'. This manual is comprehensive, running to almost 200 pages. However, it was prepared in 2005 and had not been updated to reflect the current organisational arrangements[93], numerous changes to Customs legislation since 2005 or current Compliance Assurance Branch business practices. The manual is of limited practical day-to-day use to staff except in the broad sense of defining 'compliance'.

5.8 The Compliance Assurance Branch advised in July 2011 that the Compliance manual will be withdrawn and replaced by a Practice Statement supported by seven Instructions and Guidelines.[94] At the time of preparing this report, these documents were being drafted and were not available to staff on the Customs and Border Protection intranet.

5.9 There is also little recent material available on Customs and Border Protection's website for its clients (such as importers, Customs brokers and depot and warehouse licensees) to explain the new DRRM and clients' rights and responsibilities.

5.10 In an environment of self-assessment, and particularly one where there have been recent changes to administrative practices and procedures, it is good practice to ensure that both staff and clients have ready access to material

[93] For example, it does not contain any reference to Compliance Risk Analysts or their predecessors, the National Industry Leads and the National Business Centres.

[94] Customs and Border Protection's website notes that manuals are being 'gradually replaced by Practice Statements and Instructions'.

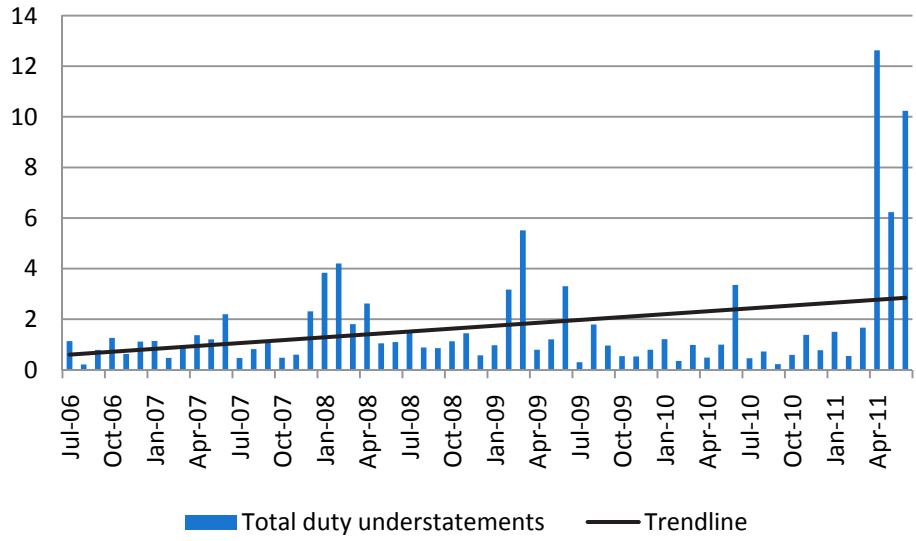
which clearly explains Customs and Border Protection's powers, and clients' rights and responsibilities.

Compliance Assurance Branch outcomes

5.11 As the new Compliance Assurance Branch business model has only been in place since July 2010, it is too early to draw a firm conclusion whether it has been effective because the introduction of new compliance activities prevents ready comparisons with earlier years. However, comparable data is available in relation to detections of revenue understatements and the outcomes of audits. This data is set out below.

Figure 5.2

Total customs duty understatements detected July 2006 to June 2011 ($ millions)



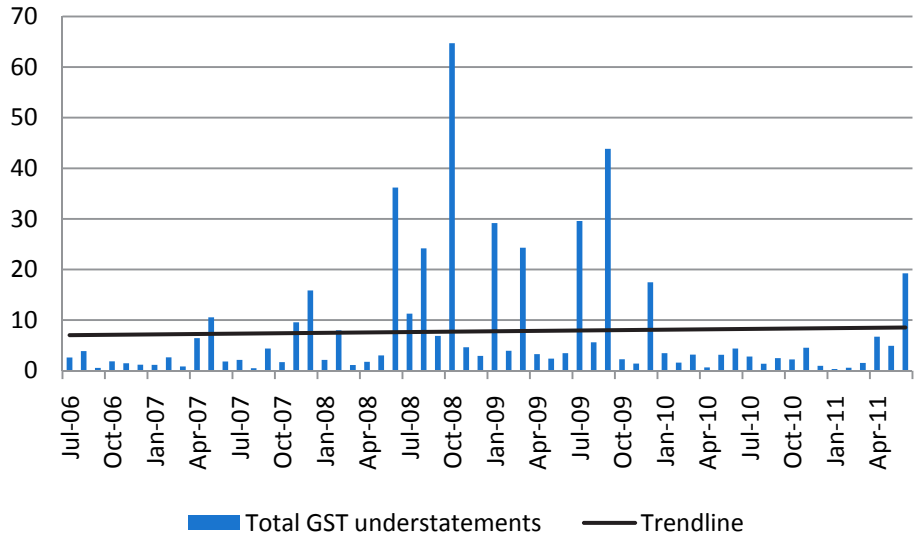
Source: ANAO analysis of Customs and Border Protection data.

5.12 Figure 5.2 shows the total amount of understated customs duty detected as a result of Compliance Assurance Branch audit and non-audit activity for the five years from July 2006. Of particular note is the sharp increase in understated customs duty detected in April, May and June 2011. While it is not possible to conclude with certainty that this increase is attributable to Customs and Border Protection's new approach to compliance, it suggests that the new approach is at least as effective as previous

approaches. Figure 5.3 shows the same trend data for detections of GST understatements detected by Compliance Assurance Branch.

Figure 5.3

Total GST understatements detected July 2006 to June 2011 ($ millions)



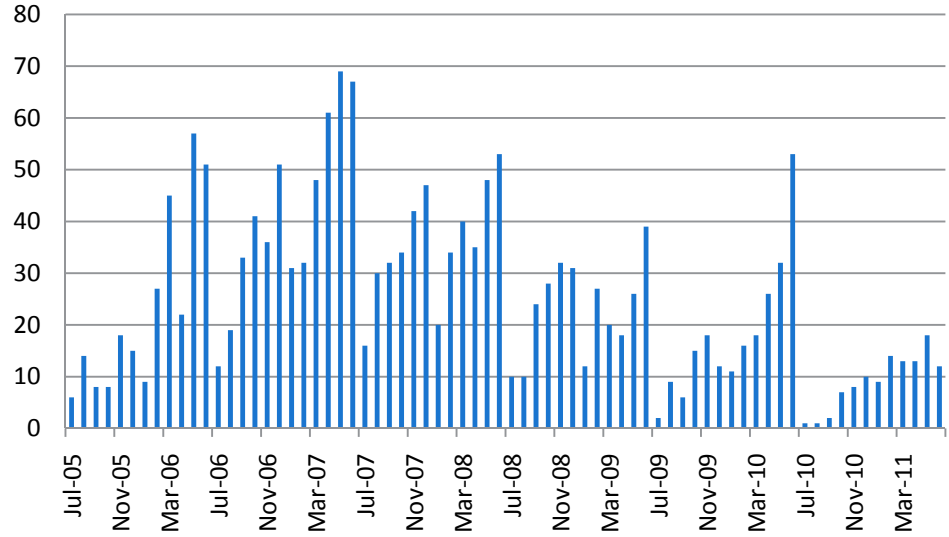
Source: ANAO analysis of Customs and Border Protection data.

5.13 There has been a slight upwards trend in GST understatements detected by Compliance Assurance Branch over time, although it is not as significant as the result for customs duty. However, there was a similar increase in GST understatements detected at the end of 2010–11. The total amount of GST and customs duty understatements detected by Compliance Assurance Branch in 2010–11 was $84.67 million.

5.14 Another measure of the effectiveness is the number of revenue audits which resulted in a 'material adjustment' of more than $1 000: that is, where the customs duty and/or GST which was actually paid was more than $1 000 less (or more) than it should have been. Figure 5.4 shows the number of revenue audits conducted for each month between July 2005 and June 2011. There has been a significant decrease in the number of import audits conducted in 2010–11 compared with earlier years. This is consistent with the move towards less complex non-audit compliance treatments which underpins the new compliance approach.

Figure 5.4

Number of import audits for period July 2005 to June 2011

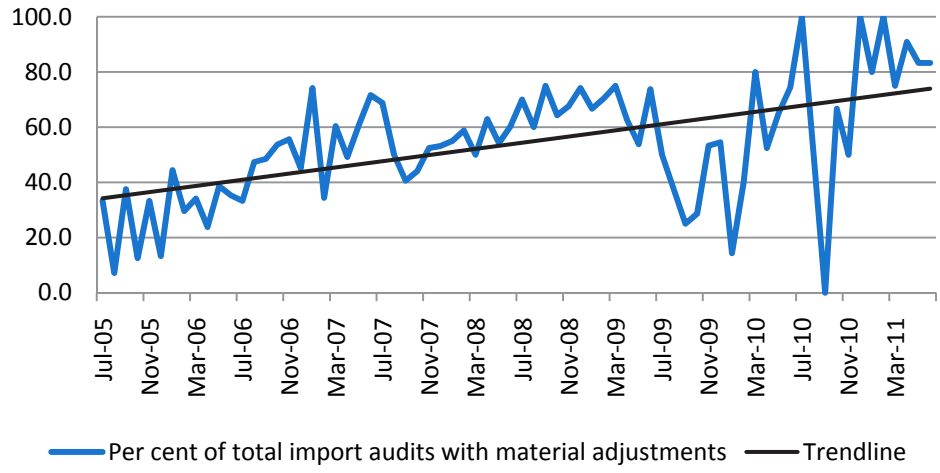


Source: ANAO analysis of Customs and Border Protection data.

5.15 Figure 5.5 shows a significant increase over time in the number of import audits with material adjustments of greater than $1 000. Notably, in the months of July and December 2010 and February 2011, 100 per cent of the smaller number of import audits conducted had material adjustments of greater than $1 000. While this could suggest more widespread non-compliance, Customs and Border Protection considers that it is more likely to reflect improved targeting of resources on a smaller number of higher-risk entities.

Figure 5.5

Percentage of import audits with material adjustments greater than $1000, July 2005 to June 2011[95]



Source: ANAO analysis of Customs and Border Protection data.

Revenue leakage estimation

5.16 In its 1997 audit, *Risk Management in Commercial Compliance*[96], the ANAO noted that Customs and Border Protection had initiated an exercise to 'develop a statistically valid measure of client revenue compliance'. The intention was to attempt to estimate the difference between the revenue that Customs and Border Protection actually collected and the amount that should have been collected if every Customs entry was completely accurate and there were no attempts to evade the payment of customs duty and GST ('revenue leakage').

5.17 Between 2001 and 2009, Customs and Border Protection used benchmark audits to estimate leakage. A stratified random sample of 60 import 'lines' from 75 importing companies was taken. The selected importers were visited and a comparison made between the ICS input data and the commercial documentation for the selected importations. The revenue

[95] No import audits were undertaken in September 2010.

[96] ANAO, *Risk Management in Commercial Compliance*, 1997, <http://anao.gov.au/~/media/Uploads/Documents/1997%2098_audit_report_6.pdf> [Accessed 10 May 2011].

errors detected were consolidated and used to provide an extrapolation across the import population.

5.18 In 2009, the benchmark audit program was replaced by the Compliance Monitoring Program (CMP) which is less resource intensive. Under the CMP, a stratified random sample of approximately 6 000 import transactions is selected, but rather than officers visiting the selected importers' premises the importers are asked to provide Customs and Border Protection (by email or post) with copies of the commercial documents (such as invoices). These documents are checked against the FID to ensure that the goods description and declared value are correct. However, the ANAO found that at some stage before the introduction of the CMP, there was a significant change in the sampling process adopted for the current arrangements. Prior to the stratification of the sample, companies which Customs and Border Protection deemed to be 'non-compliant'[97] were removed from the population.

5.19 There have been significant differences between the revenue leakage estimates from the benchmark audit program and the CMP, and the amount of revenue that Customs and Border Protection actually collects as a result of its compliance activities. These are shown in Table 5.1.

5.20 The differences between the leakage estimates and amount actually collected as a result of compliance activity confirm that the estimates do not represent leakage across all import sectors. For example, although the 2009–10 estimate of GST leakage was an overpayment to Customs and Border Protection of $157.4 million, $116.6 million in underpayments was actually detected and collected.

[97] Non-compliant companies are those that had already been selected on a risk basis for audit or other compliance activity, were the subject of a profile and alert or were currently the subject of other action (such as prosecution for revenue evasion).

Table 5.1

Comparison between revenue leakage estimates and underpayments detected and collected 2006–07 to 2010–11

	Leakage estimates				Actual detection and collection	
	Customs duty		GST		Customs duty ($ million)	GST ($ million)
	$ million	Per cent	$ million	Per cent		
2006–07	2.735	0.08	25.148	0.17	12.428	34.961
2007–08	0.250	0.01	16.621	0.09	20.364	86.382
2008–09	2.871	0.08	1.705	0.01	21.337	181.196
2009–10	13.900	0.711	-157.400	- 1.013	12.298	116.633

Source: ANAO, from Customs and Border Protection data.

Note: The estimate for GST for 2009–10 was an overpayment of $157.4 million.

Revenue leakage estimates for 2010–11 were not available at time of audit.

5.21 Customs and Border Protection has publicly reported its revenue leakage estimates on a number of occasions, including in an answer to a Senate Estimates Question on Notice. However, in these reports, Customs and Border Protection did not make it clear that the data was based on an assessment of revenue leakage from companies which it had deemed to be compliant.

5.22 On 31 March 2011, Customs and Border Protection advised that the original program development did include imports such as EEG[98] goods and even importers that were subject to other compliance activity (for practicality reasons) but these were subsequently excluded in subsequent years to reflect only the 'deemed compliant' sub-population. Customs and Border Protection also acknowledged that the comments in the reports would have been clearer if they had specified the import population to which the comments were attributed.

5.23 Undertaking testing in the compliant population may have some validity for Customs and Border Protection. It provides an understanding about the level of compliance in the population which is considered to be generally compliant. It might also provide intelligence about improper or illegal activities that are not being detected and treated in the current regime,

[98] EEGs are excise equivalent goods: these are petroleum, tobacco and alcohol.

which would then inform new targeted activities. However, in public reporting of its revenue leakage estimates, Customs and Border Protection should make it clear that the results of this work do not provide an estimate of total revenue leakage across the entire import population. If Customs and Border Protection is to provide a reliable estimate of revenue leakage, its methodology should cover the entire reporting population, the approach it adopted for several years.

Recommendation No.1

5.24 To improve its estimation of revenue leakage, the ANAO recommends that Customs and Border Protection:

- adopts a revenue estimation methodology that estimates leakage across all sections of the import population; and
- accurately reports the results and methodology applied.

Customs and Border Protection Response: Agreed. Customs and Border Protection will take expert advice and review our approach. We will aim to publish our approach and progressively implement any changes from 30 June 2012.

Use of sanctions

5.25 In addition to criminal and quasi-criminal prosecutions for offences against the Customs Act (or other relevant legislation), Customs and Border Protection has two other sanctions that it may use to address non–compliance. These are licensing and the Infringement Notice Scheme (INS).

Licensing

5.26 Under the Customs Act, Customs and Border Protection issues three types of licences: customs brokers licences, warehouse licences and depot licences.[99] Table 5.2 shows the number of licences issued for the three types as at 16 June 2011.

[99] An applicant for a broker's licence is required to undergo a police records check and either have completed an approved course of study or demonstrate (by an examination) that he or she has the requisite knowledge. Other checks (such as solvency) are also undertaken to establish whether an applicant for an individual licence is a 'person of integrity' or whether an applicant for a corporate licence is a 'fit and proper' company. Conditions for the grant of a warehouse or depot licence include that the applicant is a 'fit and proper person' and that the physical security of the premises is adequate.

Table 5.2

Number of licensed customs brokers, warehouses and depots as at 16 June 2011

Type of licence	Number
Customs broker	2 475
Warehouse	462
Depot	418
TOTAL LICENSES	**3 355**

Source: Customs and Border Protection.

5.27 Under the Customs Act, there are a number of grounds under which licences can be suspended, cancelled or revoked.[100] For Customs brokers, this includes whether the broker has been convicted of certain offences, is or has become bankrupt or where Customs and Border Protection considers that the broker has 'ceased to perform the duties of a customs broker in a satisfactory and responsible manner'. For depots and warehouses, grounds may include inadequate physical security or where Customs and Border Protection considers that the licensee is not a fit and proper person.

5.28 The suspension, cancellation or revocation of a licence is a powerful sanction, but as it will prevent individuals or companies from trading Customs and Border Protection advised that it 'will only use it with extreme caution'. Table 5.3 shows that the number of cancellations or revocations over the last three years has been small. The power to suspend a broker's licence and a warehouse licence has not been used in that time.

[100] Brokers' licences can be suspended pending review by the National Customs Brokers Licensing Advisory Committee and may subsequently be restored or cancelled following that review. Warehouse licences can be suspended or cancelled for certain specified reasons. There is no power to suspend a depot licence, but it may be revoked.

Table 5.3

Licence cancellations or revocations 2008–2010

Year	Brokers	Warehouses	Depots	Total
2008	0	1	2	**3**
2009	1	0	4	**5**
2010	0	7[1]	2	**9**
2011[2]	0	1	0	**1**
TOTAL	**1**	**9**	**8**	**18**

Source: Customs and Border Protection.

Note: [1.] Includes three cancellations due to non–payment of licence fees.

[2.] To 1 September 2011.

The Infringement Notice Scheme

5.29 The Australian Law Reform Commission has noted that 'Within every government regulatory scheme is a system of penalties and other sanctions to foster compliance and punish non-compliance'.[101] Civil or administrative penalties are authorised by legislation and generally used where the breach does not warrant a prosecution or where an intent to commit the offence is difficult or impossible to prove.

5.30 For Customs and Border Protection, an administrative penalty scheme was introduced in 1998 which provided for a penalty of 200 per cent where a false or misleading statement led to a revenue shortfall. The Infringement Notice Scheme (INS) replaced the previous scheme in 2002 and penalties for a range of other offences were introduced, whether or not they resulted in a revenue shortfall. The Explanatory Memorandum to the *Customs Legislation Amendment and Repeal (International Trade Modernisation) Bill 2001*[102] stated:

> An integral part of Customs approach to cargo management is reliance on a self-assessment system whereby industry is required to accurately report cargo in a timely manner and pay the correct amount of duty owing. An appropriate penalty regime is an important part of this self-assessment system as it

[101] *Principled regulation: Federal Civil and Administrative Penalties in Australia*, ALRC Report 95, March 2003 <http://www.alrc.gov.au/sites/default/files/pdfs/publications/ALRC95.pdf>.

[102] <http://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r1211_ems_33758249-0e20-4e7a-a0bf-f5622dfd667f/upload_pdf/38913rem.pdf;fileType=application/pdf#search="an%20integral%20part%20of%20Customs%20approach%20to%20cargo%20management">.

supports compliance by the use of pecuniary penalties, to ensure the provision of accurate information and the calculation and payment of the correct amount of duty.

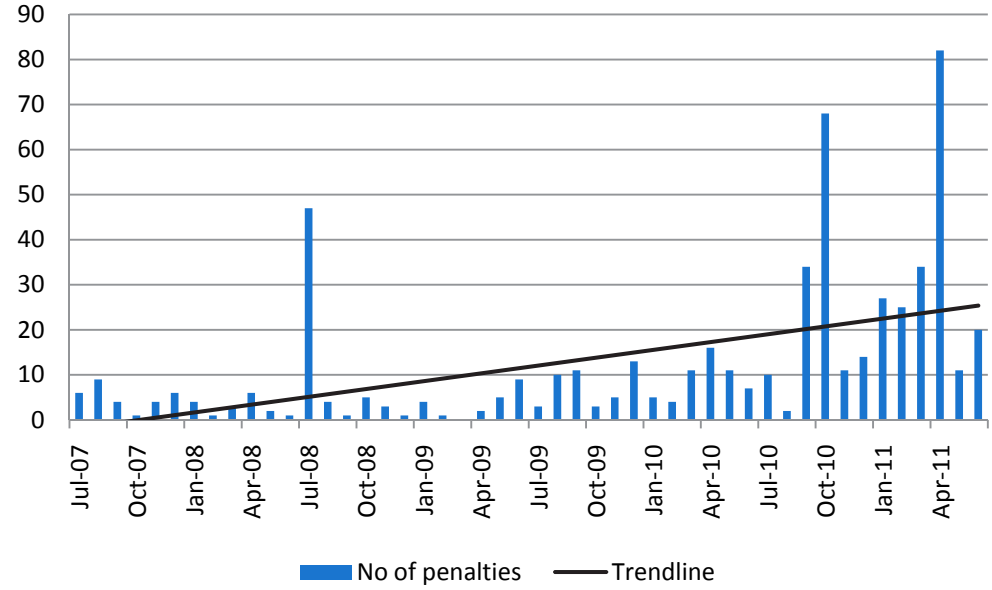
5.31 Offences under the INS are strict liability offences, meaning that the physical elements of the offence need to be present to have reasonable grounds to believe an offence has been committed. The presence of such facts does not imply that imposition of a penalty is warranted, but that a mistake or error is sufficient to warrant the imposition of a penalty. The various offences subject to INS penalties relate to:

- making false or misleading statements;
- failure to report or report on time;
- failure to comply with certain directions; and
- moving, altering or interfering with goods without authority.

5.32 Most INS penalties are $1 320 per occurrence. For offences that result in a short-payment of duty, the penalty is 20 per cent of the amount of the short-payment. The number of penalties imposed by Customs and Border Protection in the four years from 2007–08 to 2010–11 are shown in Figure 5.6.

Figure 5.6

INS: number of penalties imposed 1 July 2007 to 30 June 2011



Source: ANAO analysis of Customs and Border Protection data.

5.33 The comparatively large number of penalties imposed in July 2008, October 2010 and April 2011 was due to a small number of companies receiving multiple penalties in those months.[103] Figure 5.6 shows that although there has been an increase over time in Customs and Border Protection's use of the INS (particularly in the last year), it is still relatively infrequent. On average, in each month over the four-year period, Customs and Border Protection issued just under 12 penalties to 4.7 companies. As Table 5.4 shows, the penalties imposed related to only 10 of the 31 offences covered by the INS.

[103] In July 2008, one company received 33 penalties; in October 2010 one company received 49 penalties and in April 2011 one company received 74 penalties.

Table 5.4

Offence provisions for which Customs and Border Protection issued INS penalties, 1 July 2007 to 30 June 2011

Section	Description	No. of penalties imposed	Total penalty amount $
33(2)	Moving, altering or interfering with goods subject to Customs control without authority	2	2 640
33(3)	Moving, altering or interfering with goods subject to Customs control without authority	45	59 400
33(6)	Moving, altering or interfering with goods subject to Customs control without authority	302	398 640
36(6)	Failure to keep goods safely or failure to account for goods	2	2 640
64(13)	Failure to meet reporting requirements for the impending arrival of a ship or aircraft	4	5 280
64AA(10)	Failure to meet reporting requirements for the actual arrival of a ship or aircraft	3	3 960
102A(4)	Failure of a holder of a warehouse licence to notify Customs of release of prescribed goods for export	3	3 960
243T(1)	False or misleading statements resulting in loss of customs duty	199	133 290
243U(1)	False or misleading statements not resulting in loss of customs duty	4	440
243V(1)	False or misleading statements in a cargo report or outturn report	2	2 200
TOTAL		**566**	**612 450**

Source: ANAO analysis of Customs and Border Protection data.

Comparison with other penalty regimes

5.34 The use of a scheme to penalise errors made during the importation process is common in overseas Customs administrations. The ANAO compared Customs and Border Protection's use of penalties with similar regimes used by other Customs agencies overseas.

5.35 New Zealand, the United States, the United Kingdom and Canada all have civil penalty schemes that are broadly similar to the scheme in Australia. The Canada Border Services Agency (CBSA) scheme is known as the Administrative Monetary Penalty System (AMPS) and the CBSA publicly reports detailed information on the number and type of penalties it imposes.

5.36 The AMPS has 150 prescribed penalties with an increase for each successive offence. The penalty amounts available under the AMPS range from $100 to $25 000 for a first offence, depending on the seriousness of the offence. Many of the penalties increase substantially (often doubling) for second and subsequent offences.

5.37 In the three year period from 1 July 2007 to 30 June 2010, the CBSA issued 23 810 penalty notices for a total penalty amount of $27 687 100. This allows a comparison between the INS used by Customs and Border Protection and the CBSA's AMPS as shown in Table 5.5. This data was broadly comparable because:

- the penalties apply to similar types of offences;
- both the Canadian and Australian schemes involve, in the main, set penalties for each error penalised; and
- the volume of imports for the two countries are very similar: in 2009–10 CBSA released 11.9 million shipments (air, marine, road and rail)[104] while Customs and Border Protection processed 13.6 million sea and air cargo shipments[105] in the same period.

[104] CBSA *2009–10 Departmental Performance Report* <http://www.tbs-sct.gc.ca/dpr-rmr/2009-2010/inst/bsf/bsfpr-eng.asp?format=print> [accessed 21 April 2011]

[105] Customs and Border Protection,*2009–10 Annual Report*, p. 23.

Table 5.5

Comparison between Infringement Notice Scheme (Australia) and Administrative Monetary Penalty Scheme (Canada), 1 July 2007 to 30 June 2010[106]

Period	No. of penalties		Total penalty amount $A	
	Australia	Canada	Australia	Canada
Jul – Dec 2007	30	4 483	47 747	5 187 680
Jan – Jun 2008	17	4 098	16 601	4 631 350
Jul – Dec 2008	61	3 993	54 412	4 423 380
Jan – Jun 2009	21	3 779	25 954	3 376 570
Jul – Dec 2009	45	3 926	57 566	5 143 990
Jan – Jun 2010	54	3 531	71 598	4 924 130
TOTAL	**228**	**23 810**	**273 877**	**27 687 100**

Source: Canada: ANAO analysis of CBSA, *National Administrative Monetary Penalty statistics* <http://cbsa-asfc.gc.ca/trade-commerce/amps/namps-snsap-eng.html> [accessed 21 April 2011].

Australia: ANAO analysis of Customs and Border Protection data.

Note: Exchange rate applied as at last day of period.

5.38 Table 5.5 shows that for the period 1 July 2007 to 30 June 2010, the CBSA issued more than 100 times the number of penalties (both in terms of the number of penalties and penalty amounts) than Customs and Border Protection.

Factors affecting Customs and Border Protection's use of the INS

5.39 The processes involved in imposing a penalty under the Australian INS are complex. For example, the current publicly available Infringement Notice Guidelines[107] are almost 100 pages, while the Infringement Notice Scheme Officer Resource Manual is more than 300 pages.

5.40 There is evidence on Customs and Border Protection files to show that this complexity serves as a deterrent to staff using the INS more frequently.

[106] Although Australian Customs and Border Protection data is available for 2010–11, it was not included here because Canadian data for that period was not available.

[107] Customs and Border Protection, *Infringement Notice Guidelines (2010)* <http://www.customs.gov.au/webdata/resources/files/InfrinNoticeGuidelinesDiv5.pdf> [accessed 27 April 2011].

For example, a November 2008 report relating to Deliveries Without Authority[108] makes the following observations:

- air express companies (main offenders) see a $1 320 fine as the cost of doing business—no great impact on bottom line;
- penalties are too low to make an impact on large companies—some of whom feel they are immune to further Customs action for non-compliance;
- the INS program is difficult and time-consuming to progress with no guaranteed outcome—most respondents[109] have no confidence in the management of the system as previous infringements have been withdrawn after payment; and
- more of a deterrent to Customs staff than industry as it is micro-managed, cumbersome and inefficient.

5.41 The INS was to be used by Customs and Border Protection to encourage compliance with cargo reporting requirements. The ANAO's analysis of penalties imposed since July 2007 shows that Customs and Border Protection has made relatively infrequent use of the INS, especially compared with a similar scheme in Canada, although there was an increase in the number of penalties issued during the audit period.

Conclusion

5.42 In July 2010, Customs and Border Protection introduced a new business model for dealing with risks relating to cargo processing, regulated trade and revenue leakage. The model is consistent with an intelligence-led risk-based approach and the operational planning processes are sound. The model includes a wider range of risk treatments than the previous approach and allows the compliance approach taken to be more commensurate with the seriousness and consequences of detected non-compliance. The indicators available at the time of the audit suggest that the new DRRM is producing comparable results with the former model.

[108] Delivery Without Authority (DWA) is where cargo is released from a depot or warehouse without specific clearance having been given by Customs and Border Protection.

[109] To an internal survey of officers' perceptions of the INS.

5.43 Customs and Border Protection has attempted to establish an estimate of revenue leakage since 2001. A change to the initial methodology has meant that these estimates are potentially misleading as they estimate the leakage from the 'deemed compliant' portion of the importing population rather than the whole population. If Customs and Border Protection is to provide a meaningful estimate of revenue leakage, its methodology should cover the entire importing population, which was the approach it initially adopted.

5.44 Customs and Border Protection has made relatively infrequent use of its INS, which was introduced as a tool to improve compliance and reduce non-compliance. Officers have found the INS to be difficult, time-consuming and cumbersome to use. In an environment of increasing cargo volumes, there would be merit in Customs and Border Protection reviewing the INS to identify any operational impediments and, if necessary, seeking administrative or legislative changes.

Recommendation No.2

5.45 To improve the usefulness of the Infringement Notice Scheme as a mechanism for improving compliance and discouraging non-compliance, the ANAO recommends that Customs and Border Protection:

(a) reviews the operation of the Scheme to identify the impediments to its wider use and whether these impediments can be rectified; and if required

(b) seeks any necessary administrative or legislative changes to the existing scheme to improve its effectiveness.

Customs and Border Protection Response: Agreed. Customs and Border Protection has been increasing the use of infringement notices over the past two years and is currently undertaking an internal review to streamline processes further. We will consider the design of similar schemes used by other Customs administrations, and bring forward any recommendations for changes to INS administration or legislation and enabling investment proposals for consideration by the Customs and Border Protection Executive by 30 June 2012.

6. Risks Associated with Self Assessed Clearances

This chapter examines the use of Self Assessed Clearances for goods with a value of less than $1000 and examines the community protection and revenue risks that they present.

Introduction

6.1 As previously discussed, there are two types of Customs Declarations: Full Import Declarations (FIDs) and Self Assessed Clearance Declarations (SACs). In 2010–11, there were 3.4 million FIDS and 10.8 million SACs processed by Customs and Border Protection.

6.2 SACs were introduced in 2005 to reduce the administrative burden on both Customs and Border Protection and importers by reducing the information required to be reported to Customs and Border Protection for goods valued at $1 000 or less.[110] There are three types of SACs:

- Cargo Report SAC declaration (CRSAC);
- SAC declaration (short format); and
- SAC declaration (full format).

6.3 CRSACs can only be used where the consignment does not contain alcohol or tobacco or where the goods require a permit (either a short or full format SAC must be used for such consignments). The total number and type of SAC declaration received in 2010–11 is shown in Table 6.1. As short and full format SACs comprise fewer than three per cent of all SACs, they were not examined in detail by the ANAO.

[110] In 2005, Commonwealth legislation was amended to set the threshold at $1 000 for both postal and non-postal importations. In 2006, the import processing charge for CRSACs was removed (partly because it was becoming uneconomical for Customs and Border Protection to collect a large number of small charges).

Table 6.1

Numbers of Self Assessed Clearances 2010–11

SAC type	Number
Cargo Report	10 546 316
Full format	156 357
Short format	136 463
TOTAL	**10 839 136**

Source: Customs and Border Protection.

6.4 The principal difference between a CRSAC and a FID is that a CRSAC does not require the tariff classification. Instead, a 'free text' description of the goods is provided. This approach substantially simplifies the importing process as tariff classification can be complex, requiring specialised knowledge. This is one of the reasons why FIDs are generally prepared and submitted electronically to Customs and Border Protection by Customs brokers on behalf of the importer.[111] As outlined in Table 6.2, there are a number of advantages in using CRSACs including that:

- customs duty and GST is not payable on imports valued at or less than $1 000 (except alcohol and tobacco products);
- a SAC does not attract an import processing charge (currently $40.20 for electronic air cargo FIDs and $48.85 for manual air cargo FIDs); and
- air express couriers generally do not charge a customs brokerage fee.[112]

[111] Air express courier company staff engaged in the input and submission of CRSACs to the ICS are generally not licensed customs brokers. However, Customs and Border Protection requires the air express courier company to hold a corporate customs broker's licence.

[112] Customs and Border Protection has estimated that the brokerage fee for a low value item that is entered on long format SAC declaration is likely to be up to $100.00.

Table 6.2

Comparison of the costs and charges payable for goods entered on a CRSAC and FID

Item	$1 000 CRSAC	$1 001 FID
Value of goods (CVAL)	1 000	1 001
Customs duty @ 5% of CVAL	0	50
International transport, insurance and postage (T&I) (approx.)	100	100
GST (10% of the sum of CVAL, customs duty and T&I)	0	120
Import processing charge (manual)	0	49
Customs broker's charge (approx)	0	100
Total price paid by importer	**1 100**	**1 420**

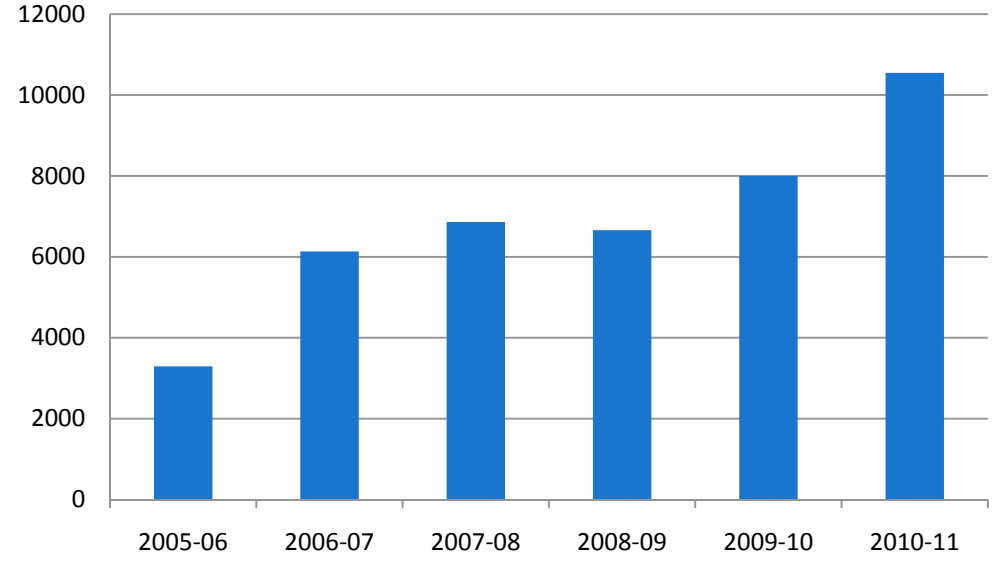
Source: ANAO analysis.

6.5 Air express couriers also offer additional services which are not available in the ordinary postal service such as the ability to track packages in real time. Although generally more expensive than ordinary mail[113], these features make them attractive for both business (for example, to quickly deliver business documents) and for individuals (who can purchase goods over the internet and have them delivered in a few days). As Figure 6.1 illustrates, the number of CRSACs has more than tripled since 2005–06, although there was a slight decrease in 2008–09, possibly due to the effects of the global financial crisis.

[113] For example, a one kilogram package would cost an individual approximately $A110.00 when sent from New York to Canberra, whereas a postal item of the same weight would cost around $A13.25 (airmail) or $3.50 (surface mail). Very large consignors are presumably able to secure more favourable rates and some consignors offer 'free' air express delivery, although in reality, these costs would be built into the price of the goods.

Figure 6.1

Number of Cargo Report Self Assessed Clearances 2005–06 to 2010–11



Source: Customs and Border Protection.

6.6 These increases are widely attributed to the growth in internet commerce, which has made it easier for Australian consumers to purchase goods overseas, together with recent favourable changes (for importers) in the exchange rate for the Australian dollar.

6.7 As with all imports, management arrangements for the processing of CRSACs requires Customs and Border Protection to strike a balance between facilitating the legitimate movement of goods and the imposition of controls aimed at protecting the community and collecting payable revenue. This balance requires consideration of both the absolute and relative risk posed by CRSACs. Balancing such considerations poses challenges for Customs and Border Protection, particularly in the light of the inherent attractiveness of CRSACs, their large volume and strong growth when set against constrained agency resources and the practical limitations of the intervention options open to the agency. Within this context, Customs and Border Protection deploys a combination of targeted intervention (which is reliant on the information included in CRSACs) and a broad program of inspection and examination which includes selections based on broad risk indicators (behaviours, trading patterns, and intelligence).

6.8 The ANAO examined:

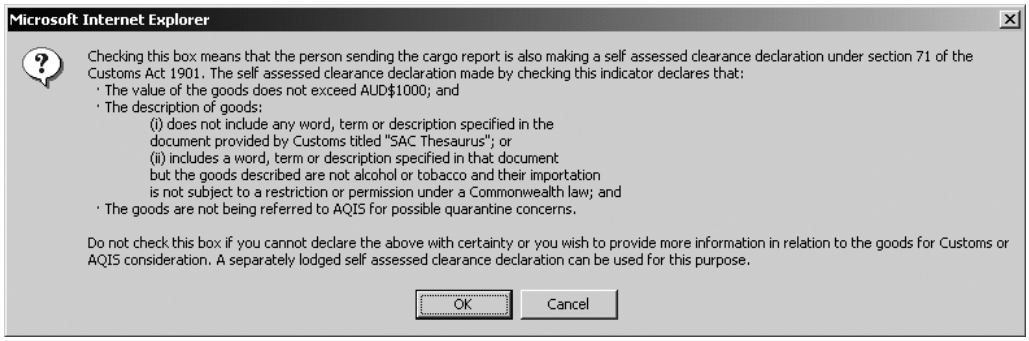
- CRSAC processing arrangements;
- the risk CRSACs present to revenue and community protection;
- Customs and Border Protection's risk treatments for CRSACs; and
- CRSAC data to assess non-compliance with border legislation.

CRSAC processing arrangements.

6.9 A CRSAC is created by 'ticking' a box on the cargo report, which is one of the earliest reports that must be provided to Customs and Border Protection in the import process: in effect, a cargo report becomes a CRSAC when this occurs. Figure 6.2 illustrates this process.

Figure 6.2

SAC declaration



Source: Customs and Border Protection.

6.10 The SAC Thesaurus is a list of 135 items covering the description of goods that may:

- require the payment of customs duty or GST and therefore cannot be entered on a CRSAC; or
- indicate the presence of prohibited or restricted goods or goods of quarantine concern.

6.11 The SAC Thesaurus is on the Customs and Border Protection website[114] and has been reproduced at Appendix 4. Customs and Border Protection makes the SAC Thesaurus available to brokers and cargo reporters as part of its software developer's guide and a number of the larger companies have incorporated it into their own software.[115] Although the Thesaurus is a guide to cargo reporters and air express couriers to assist them to identify goods which may be of concern, there is a risk that it could also be used as a guide for terms to be avoided, as these goods would probably be held by Customs and Border Protection for closer examination. In August 2011, Customs and Border Protection advised that the SAC Thesaurus was in the process of being reviewed.

6.12 The CRSAC declaration requires the cargo reporter or air express courier to declare that the goods do not have a value of more than $1 000. However, analysis by the ANAO showed that in calendar year 2010, some CRSACs (1 620) with a value of greater than $1 000 were given a 'clear' status. While 1 570 (96.9 per cent) of these had a value of between $1 000.01 and $1 100.00, there were 12 with a declared value of greater than $1 200, and three with values of $7 217, $12 748 and $47 539 respectively. While the input of these values may have simply been errors, the analysis shows that the ICS does not prevent CRSACs with a value of greater than $1 000 from being entered. Customs and Border Protection advised that a profile is now in place to hold all CRSACs over $1 100 to mitigate this non-compliance.

6.13 As noted in paragraph 3.22, FIDS with tariff classifications which may indicate that the goods are of some community concern will trigger one or more of 110 pre-determined Community Protection Questions. Because CRSACs do not require the tariff classification of the goods to be provided, this does not occur with CRSACs. Once the cargo reporter or air express courier 'ticks' the OK box, the cargo report become a CRSAC and is subject to profiling in the same way as FIDs. Unless the goods trigger a profile and a Customs and Border Protection officer decides to place a hold on the goods, they will be granted a 'clear' status and released into home consumption.

---

[114] <http://www.customs.gov.au/webdata/resources/files/CRSACThesaurus_050725.pdf>.

[115] The ANAO notes that the terms in the SAC Thesaurus are largely generic and do not reflect the full range of prohibited or restricted goods contained in the Prohibited Imports Regulations.

Operation Rampion

6.14 In late 2010, a number of prominent retail industry figures and bodies launched a campaign to remove or reduce the customs duty and GST free threshold from CRSACs in order to create a 'level playing field' between low value goods purchased in Australia and overseas. The Government responded to this campaign by requesting the Productivity Commission to undertake 'an inquiry into the implications of globalisation for the Australian retail industry, with a view to informing the Government on whether current policy settings are appropriate in this environment'.[116] The Productivity Commission released a draft report in July 2011. It found that, in principle, the GST should apply to all transactions. However, it also found that, under current arrangements, lowering the threshold to, for example, $20 would raise in excess of $500 million in tax revenue but the cost of collection would be almost $1.6 billion. The Commission's final report is due in November 2011.

6.15 On 18 December 2010, the Minister for Home Affairs announced that Customs and Border Protection would 'undertake a compliance campaign to ensure GST and customs duty concessions for imports with a value of $1 000 or less (the current low value import threshold) were not being abused or exploited'. This campaign was given the name of Operation Rampion.

6.16 Operation Rampion ran from 1 January 2011 to 31 March 2011. It involved a substantial increase in the number of examinations of international mail articles and CRSACs in sea and air cargo.[117] Additional profiles were created to identify consignors, consignees and goods considered to be at some risk of evading the payment of revenue. In addition to the approximately 11 000 CRSACs it would examine as part of its 'business as usual' (BAU) activity, Customs and Border Protection assessed an additional 20 602 CRSACs as follows:

- targeted (9 804 assessments)–designed to assess the compliance of importers, suppliers, reporters, brokers and source countries deemed by Customs and Border Protection to be of high risk;

[116] Terms of Reference for the Inquiry are at <http://www.pc.gov.au/projects/inquiry/retail-industry/terms-of-reference>.

[117] Because goods imported through the postal 'stream' are outside the scope of this audit, this area is not addressed here.

- discovery (3 090 assessments)–aimed at the major consignors and consignees in the CRSAC environment in order to assess their level of compliance with the low value threshold; and
- random (7 708 assessments)–involved an assessment 'on the face of entry[118]' with a 'call for documents[119]' in approximately one half of this category of assessments.

6.17 Where Customs and Border Protection found that the declared value was, in fact, more than $1 000, it required the importer to re-declare the goods on a FID with the correct value and other information (such as the tariff classification) and to pay any necessary customs duty. The possible imposition of INS penalties was also considered. During the period of Operation Rampion, Customs and Border Protection physically opened and inspected 123 packages (less than 0.5 per cent of the packages assessed).

Campaign outcomes

6.18 Customs and Border Protection produced a summary of the campaign outcomes in June 2011.[120] This summary states that there were 1 942 instances of undervaluation detected in sea and air cargo and international mail with a total revenue evasion of $718 000. Based on the results of Operation Rampion, Customs and Border Protection has estimated that the amount of revenue leakage from CRSACs is approximately $39 million per annum, which it notes is 0.45 per cent of the total revenue it collected in 2009–10.

6.19 The report also indicated that assessments based on targeting (both as part of BAU and during the campaign) are more effective than random or discovery assessments. There were 1 024 positive[121] results coming from the 11 199 BAU assessments (9.1 per cent) compared with the 255 positive results from the 10 798 discovery and random assessments (2.4 per cent). Overall, across all types of assessments carried out during the Operation, Customs and Border Protection found that 5.04 per cent involved a short payment of

[118] The information input into the ICS by the air express courier.

[119] Requiring the importer to provide invoices, statements or other documents to verify the information input into the ICS by the air express courier.

[120] <http://www.customs.gov.au/webdata/resources/files/LowValueImportThresholdEnhancedCampaignReport-Published14JUN11.pdf>.

[121] Where Customs and Border Protection required the importer to withdraw the CRSAC and re-report it as a FID because the true value was in excess of $1 000.

customs duty or GST with an average revenue recovery of $389.83 per shipment.

6.20 Customs and Border Protection also assessed CRSACs for non-compliance that did not affect the revenue paid, such as incorrect consignee or consignor or incorrect or inadequate goods description (see Table 6.3).

Table 6.3

Operation Rampion non-compliance results (all types)

Result	Assessment type					
	BAU	Targeted	Discovery	Stratified	Random	Total
Number of completed assessments	11 199	1 345	3 090	8 459	7 708	31 801
Number of instances of non-compliance (all types)	1 530	266	108	394	589	2 887
Per cent	**13.7**	**19.8**	**3.5**	**4.7**	**7.6**	**9.0**

Source: ANAO analysis of Customs and Border Protection data.

Significant results of operation

6.21 During the course of Operation Rampion, Customs and Border Protection found a small number of 'significant' results. These included:

- One consignor was responsible for five of the 16 CRSACs that were assessed and the customs duty recovered was in excess of $1 000. This company is principally engaged in the clothing industry. In total, $17 380 in customs duty and $50 988 in GST and deferred GST[122] was recovered, with an average revenue shortfall of $13 674 per CRSAC.
- One consignee incorrectly declared the value as EUR 100. The subsequent FID recorded the value as $130 214, resulting in a payment of $13 245 in GST.

[122] Under the Australian Taxation Office's Deferred GST Scheme, approved companies can defer payment of the GST on imports until the lodgement of the first Business Activity Statement after the date of the importation.

- One CRSAC reported the declared value as USD 400. When the shipment was re-reported as a FID, the declared value was $113 179, leading to customs duty payment of $5 525 and GST of $12 222.
- One consignment of MP4 players was found to be part of a split consignment. The original CRSAC had a declared value of $970 which was revised to $216 913 after it was correctly re-reported. There was no customs duty involved but GST of $22 990 was paid.

Risks posed by CRSACs

6.22 Customs and Border Protection officers have considered the risks associated with CRSACs on a number of occasions and in a variety of contexts. The ANAO found 14 reports[123] between October 2008 and January 2010 which identified widespread concerns about the risks in the CRSAC environment. Among the risks identified by Customs and Border Protection officers were:

- misdescription of goods to avoid triggering profiles (both for revenue and prohibited and restricted imports);
- inaccurate, incomplete or nonsensical goods descriptions, rendering profiles ineffective; and
- deliberate undervaluation of goods in order to keep the ostensible value below the $1 000 threshold.

6.23 The report in September 2009 recommended 'a saturation exercise to be undertaken to assess the extent of revenue, community protection and data accuracy related risks associated with CRSACs'. The saturation exercise would enable the following details to be verified:

- commercial documents provided by the cargo reporter;
- details submitted on ICS declarations (including the cargo report);

[123] These reports were entitled *Self Assessed Clearances – Customs Risk* (October 2008), *Compliance Division National Director Report* (January 2008), *Threat posed by high volume use of the Self Assessed Clearance System* (January 2009), *Industry briefing on compliance issues* (April 2009), *Misuse of Self Assessed Clearances: Risk Assessment Report and Treatment Plan* (September 2009), *Matter of concern–misuse of self assessed clearance arrangements* (January 2009) and the 2010–11 Risk Assessment Reports of the Tobacco, Textiles, Clothing and Footwear and Clothing, Automotive and Transport, Restricted Goods, Alcohol, Cargo Terminal Operators and Reporting and General Business Compliance Risk Analysts (see paragraph 2.25). Customs and Border Protection advised that the last three Compliance Action Plans have given a high priority to SACs. This included assessment of 155 111 (67 177 as part of the Compliance Action Plan and 87 934 for community protection process purposes) SACs in 2010–11.

- contents of the consignment; and
- any other documentation that may be accompanying the consignment (e.g. either inside the package or attached to the outside).

6.24 Following the release of the report, it was proposed to hold a workshop in Canberra in January 2010 to consider these issues. However, before the workshop was held it was determined that a cost/benefit assessment of the proposed saturation exercise should be undertaken. Ultimately, neither the cost/benefit assessment nor the saturation exercise proceeded.

ANAO analysis of 2010 CRSAC data

6.25 To assess the nature and level of the risks associated with CRSACs the ANAO analysed CRSAC data from the ICS covering the 2010 calendar year. The outcomes of this analysis were provided to Customs and Border Protection. The following are examples of the analysis which, prima facie, suggest a range of risks:

- 1.2 million consignments with very low reported values ($0 to $10);[124]
- 2 194 consignments described as 'new mobile phones', all with a declared value of $0;
- 26 798 consignments described as 'garments', all with a declared value of $10 or less;
- a consignment described as 'medical equip' with a weight of 300 kg with a declared value of $0;
- 6 203 consignments described as 'shoes', all with a declared value of $10 or less;
- 783 consignments which descriptions which suggest they almost certainly contained alcohol (such as a consignment weighing 188 kg with a description of 'Montana Sav Blanc White Label Merlo');[125]

[124] Some shipments might legitimately have a very low monetary value, particularly those which comprise business and personal documents. Goods with such descriptions were excluded from the ANAO's sample.

[125] Consignments containing alcohol are not permitted to be entered on CRSACs since they attract customs duty and GST (and Wine Equalisation Tax if applicable).

- 41 consignments containing the description DHEA[126] which were not intercepted; and
- 150 consignments described as 'new automotive parts', all with a declared value of less than $50, sent from a well-known British luxury car manufacturer.

6.26 The ANAO also observed instances where the goods description was incomplete, inaccurate or misspelt. For example:

- 1 538 consignments where the full goods description was 'sample' or 'samples';
- 171 consignments where the full goods description was 'electronics'; and
- 221 consignments where stationery was spelled as 'stationary'.

6.27 Whilst Customs and Border Protection relies on a range of indicators to identify at-risk cargo, such shortcomings in data quality compromise the effectiveness of its profiling activity (and primary risk management tool) in relation to CRSACs, which relies on a match between the profile terms and the text of the goods description.

6.28 In examining CRSAC data downloaded from the ICS, the ANAO noted that in calendar year 2010 there were a number of shipments described as 'consolidation shipments'. In total, there were 401 of these shipments with a total weight of 99 247.70 kg. In every case, the declared value was $0. The largest shipment weighed 884 kg and the smallest 5 kg. Customs and Border Protection advised that consolidation shipments are made by large logistics companies that consolidate a large number of items into one shipment for transport to Australia where the shipment is deconsolidated after clearing Customs. However, since none of the consignors or consignees were Special Reporters or Re-mail Reporters[127], Customs and Border Protection advised that each shipment should have shown the declared value. None of the shipments

[126] DHEA is an androgenic steroid that cannot be imported into Australia without a permit.

[127] Special Reporters and Re-mail reporters are companies that send to Australia bulk consignments which are consolidated overseas or consignments such as newsletters, bank statements or bulk business mail. Once approved by Customs and Border Protection as either Special or Re-mail Reporters, they are permitted to submit abbreviated CRSACs (not including the value of consignments) in return for meeting certain compliance obligations, including providing real time access to their IT systems as and when requested by Customs and Border Protection.

was held and, in the absence of a description of what the shipments contained, Customs and Border Protection would not have been able to risk-assess these shipments.

6.29 In response to the audit, Customs and Border Protection advised that the Compliance Assurance Branch has implemented a CRSAC Compliance Monitoring Report and importers using specific terms are now being routinely assessed by CRAs to determine if intervention is warranted.

Treatment of CRSAC risks

6.30 The ANAO examined Compliance Assurance Branch's proposed treatment of CRSAC risks in the 2010–11 Compliance Action Plan. A total of 49 compliance activities were proposed, including 21 field audits, 13 focused visits and 10 desktop verifications and audits. Of the 49 proposed activities, six were incomplete at the end of the 2010–11 financial year and were 'rolled over' into 2011–12. A further 14 were not undertaken due to other priorities, including the diversion of staff to assist with Operation Rampion. Customs and Border Protection advised that the design of the Compliance Action Plan was to enable the flexibility to reallocate resources when required to undertake operations like Rampion.

6.31 In total, the 29 completed activities detected customs duty and GST underpayments of $936 122. In one activity, the examination of 11 CRSACs led to the detection of $395 820 in customs duty and GST, an average of $35 983 for each CRSAC examined during the activity.

6.32 In September 2011, Customs and Border Protection provided the ANAO with its Compliance Effectiveness Report for 2010–11. The report contains the following observations about SACs, which are consistent with the ANAO's analysis of CRSAC data:

- SAC usage is an ongoing risk which 'seems to be ever increasing'. Goods are being entered just under the $1 000 threshold, and avoiding duty and GST, especially in regards to automotive goods being broken down to parts only;
- SACs are 'a real area of concern for regulated products'. This is particularly evident in relation to online purchases and mail order for steroids. Goods are being generically described as vitamin supplements and health goods; and
- SAC usage 'continues to be an ongoing risk' within the textile, clothing and footwear industry with goods 'constantly being undervalued' to under $1 000. The ongoing misclassification of goods continues to be of concern.

Conclusion

6.33 Many of the risks associated with CRSACs are shared with other import types and Customs and Border Protection relies on a range of risk indicators and a combination of broad coverage and targeted intervention activity to identify high-risk cargo. However, the ANAO's analysis shows that CRSAC consignments are particularly vulnerable to:

- poor data quality which affects Customs and Border Protection's ability to effectively indentify high-risk shipments using profiles;
- mis-valuation and undervaluation of CRSAC shipments with potential impacts on revenue and reliability of data for future reporting purposes; and
- accurately described prohibited or restricted goods, or goods not eligible for CRSAC entry (such as alcohol) 'leaking' into the CRSAC 'stream' through a lack of system controls.

6.34 There were more than 10 million CRSAC entries in 2010–11 and it seems very likely that the number of entries will continue to increase. While most CRSACs may be for legitimate importations, there is sufficient indicative

evidence of misuse to warrant a review of SAC processing. Areas where improvements could be made are:

- examining alternatives to the present free text fields, possibly through the development of a 'drop-down' menu containing a simplified form of the Customs Tariff and the introduction of an automatic mechanism to reject inadequate and/or nonsensical goods descriptions (such as a simple 'spell check' facility);
- reviewing whether the CRSAC Thesaurus has practical benefit in its current form or should be replaced by 'standing' profiles in the ICS which, as far as possible, match:
  - all descriptions of goods which are ineligible for entry by CRSAC (such as alcohol and tobacco) and reject those entries if and when they occur;
  - all goods prohibited or restricted (by name) under the Prohibited Imports Regulations and other relevant legislation;
- an education campaign for air express couriers companies to remind them and their staff of their responsibilities to provide Customs and Border Protection with the best quality data possible;
- increased/more frequent use of INS penalties for both deliberate and inadvertent errors, omissions or inaccuracies in CRSAC data entry; and
- assessing the benefit of writing to large overseas consignors that have been identified as non-compliant (such as companies which persistently misdeclare or underdeclare the values of consignments or provide inadequate, incomplete or nonsensical goods descriptions) to seek their cooperation in complying with Australian border requirements.

Recommendation No.3

6.35 To better assess and manage the risks presented by Cargo Report Self Assessed Clearances, the ANAO recommends that Customs and Border Protection undertake a review of its processing arrangements for Self Assessed Clearances.

Customs and Border Protection Response: Agreed. Customs and Border Protection will consider the issues raised by the ANAO, and will assess improvement opportunities within the agency's overall management framework for border risks by 30 June 2012.

CRSACs and trade statistics

6.36 As noted in Chapter 4, Customs and Border Protection provides the Australian Bureau of Statistics (ABS) with a range of information relating to imports into Australia. In December 2010, the ABS advised the ANAO that Customs and Border Protection provides:

- the daily imports file each day, which includes all data (more than 70 different fields) for all FIDs reported to Customs and Border Protection for that day[128];
- the imports workload statistics file on a monthly basis; and
- the tariff statistical code file twice a year.

6.37 The ABS advised the ANAO that it uses this information to produce statistics (primarily merchandise trade statistics) at a detailed level.[129] The merchandise trade statistics feed into other ABS macroeconomic statistics like Australia's Balance of Payments and National Accounts.

6.38 Currently, only data relating to FIDs is provided to the ABS. CRSAC data is not provided[130] and, consequently, the risks arising from the potential mis-valuation or undervaluation of CRSACs does not presently affect ABS statistics. However, given the substantial increases in the number of CRSACs, the ANAO sought the ABS' views. In June 2011, the ABS advised the ANAO that it has been aware of the 'growing undercoverage' of import statistics for quite some time and that it is concerned about the size of the import trade that is not captured in the data currently provided. The ABS also advised that it

[128] There are approximately 9000 FIDs reported to Customs and Border Protection per day.

[129] *International Merchandise Imports, Australia* (ABS cat.no. 5439.0) provides summary information on Australia's merchandise imports for the latest reference month. Aggregated merchandise trade import statistics classified by standard international trade classification, country of trading partner, state, industry of origin and broad economic category is available on the ABS website. Detailed commodity statistics, including cross classification with other dimensions such as country, state, port and mode of transport can be obtained from ABS Client Services.

[130] <http://www.abs.gov.au/ausstats/abs@.nsf/dossbytitle/AF6FEE680BE85CB9CA257286007EDEAD>.

was waiting for the analysis of the 'Enhanced compliance of low value import threshold campaign[131]' which Customs undertook earlier this year before deciding on a course of action.

6.39 The United Nations Statistical Commission has also recognised that the increase in electronic commerce has led to data on an increasing volume of international merchandise not being captured. It is for the ABS to develop and advise the Government on its policy response on this issue. However, it is probable that, in the future, Customs and Border Protection will be required to provide CRSAC data to the ABS and, consequently, will need to consider ways to improve data accuracy.

Ian McPhee
Auditor-General

Canberra ACT
30 November 2011

[131] This is Operation Rampion: see paragraph 6.15.

Appendices

Appendix 1: Agency comments

Australian Government
Australian Customs and Border Protection Service

Customs House
5 Constitution Ave
CANBERRA ACT 2601

Phone (02) 6275 6500
Fax (02) 6275 6796

Mr Ian McPhee PSM
Auditor-General for Australia
Australian National Audit Office
GPO Box 707
CANBERRA ACT 2601

Dear Mr McPhee

Thank you for the opportunity to provide formal comments on the Australian National Audit Office's (ANAO) audit report *Customs and Border Protection's use of Risk Management in the Processing of Sea and Air Cargo.*

Customs and Border Protection welcomes the report, which confirms that the agency effectively uses risk management strategies to process sea and air cargo imports.

Customs and Border Protection agrees with the recommendations in the report, which provide a useful perspective on areas where improvement strategies can be explored to ensure we have the best possible approach to processing air and sea cargo. In relation to each recommendation:

Recommendation	Response and proposed action
Recommendation 1 To improve its estimation of revenue leakage, ANAO recommends that Customs and Border Protection: - adopt a revenue estimation methodology that estimates leakage across all sections of the import population; and - accurately reports the results and methodology applied.	Agree - Customs and Border Protection will take expert advice and review our approach. We will aim to publish our approach and progressively implement any changes from 30 June 2012.
Recommendation 2 To improve the usefulness of the Infringement Notice Scheme as a mechanism for improving compliance and discouraging non-compliance, the ANAO recommends that Customs and Border Protection: - review the operation of the Scheme and identify the impediments to its wider use and whether these impediments can be rectified; and if required - seeks any necessary administrative or legislative changes to the existing scheme to improve its effectiveness.	Agree - Customs and Border Protection has been increasing the use of infringement notices over the past two years and is currently undertaking an internal review to streamline processes further. We will consider the design of similar schemes used by other Customs administrations, and bring forward any recommendations for changes to INS administration or legislation and enabling investment proposals for consideration by the Customs and Border Protection Executive by 30 June 2012.

Recommendation	Response and proposed action
Recommendation 3 To better assess and manage the risks presented by Cargo Report Self Assessed Clearances, the ANAO recommends Customs and Border Protection undertake a review of its processing arrangements for SACs.	Agree - Customs and Border Protection will consider the issues raised by the ANAO, and will assess improvement opportunities within the agency's overall management framework for border risks by 30 June 2012.

In relation to observations around 'detection' performance for air and sea cargo, there can be significant variability in both volume and weight of detections across cargo streams from year to year. Variability can reflect changes in illicit markets, for example drug consumption patterns or criminal use of different import streams, and that one or two very large seizures can skew results. This is demonstrated by an increase in the weight of drugs and precursors detected in sea cargo in 2010-11 (to 3,367 kg), yet there were a smaller number of detections compared to the previous year (see Table 1 below).

The breakdown of outcomes highlights the continued effectiveness of Customs and Border Protection's risk assessment activity in detecting prohibited and restricted goods, despite changes to overall intervention levels. The change in referrals reflects work Customs and Border Protection has undertaken with AQIS in recent years to improve our arrangements for referral between agencies.

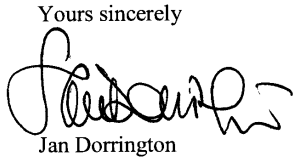
Table 1 – Air and Sea Cargo Inspections, Outcomes and Referrals – July 2007 to June 2011

	Inspections		Detections[3]		Weight of Drugs and Precursors (kg)		Quarantine Referrals[4]	
	Air[1]	Sea[2]	Air	Sea	Air	Sea	Air	Sea
2007-08	6,186,207	138,209	870*	787	309	1,824	224*	306
2008-09	6,150,914	134,544	1,495	780	350	4,777	642	344
2009-10	1,492,762	101,822	1,557	757	285	256	349	395
2010-11	1,528,590	101,889	1,741	564	763	3,367	190	222

Notes:
[1] Measured in consignments
[2] Measured in Twenty-Foot Equivalent Units
[3] 'Detections' refers to all EXAMs categories excluding Quarantine, e.g. Drugs, Firearms, Other Weapons, Prohibited Items, Revenue, Intellectual Property Rights infringements, Wildlife and Currency.
[4] 'Quarantine' refers to EXAMs category Quarantine, which is a referral of suspected quarantine material to AQIS that may or nor may not lead to a seizure.
* Note, new national business rules only commenced in March 2008 for recording air cargo detections in EXAMS.

I trust that you will find these comments useful in preparing your final report. If you require any clarification of these comments please contact Dale Furse, Director Cargo Intervention Strategies, on (02) 6275 6367.

Yours sincerely



Jan Dorrington
A/g Deputy Chief Executive Officer
Passengers & Trade Facilitation

11 November 2011

Appendix 2: Compliance Assurance Branch risk treatments

Category	Treatment type	Description
Pre-clearance intervention	Profiles and alerts	Described in Chapter 4.
Post transaction verification (audit)	Comprehensive audit	Includes both systems-based and transaction-based elements and takes into account all aspects of an organisation's activities relating to Customs and Border Protection. May also examine systems that assist the entity to comply with laws administered by Customs and Border Protection.
	Focused field audit	May be systems-based or transaction-based and focused on one or more aspects of an entity's operations that are pertinent to the identified. A Focused Field Audit is conducted at the premises of the entity being audited.
	Focused desktop audit	Documentary checks only. Conducted to check the activities of entities where the specific risk is able to be sufficiently addressed by the comparison of import declarations submitted to Customs and Border Protection with the commercial documents provided by the company. Conducted in Customs and Border Protection's offices and following an instruction to the client to produce relevant commercial documents.
Post transaction verification (non-audit)	Focused visit	A short transaction examination focused on one or more aspects of an entity's operations. Involves either a visit to an entity's premises or meeting at Customs and Border Protection's premises. May include unpack of cargo, delivery, and security of premise checks dependant upon the assessed risk posed by the entity or industry.
	Desktop verification	Documentary checks to monitor the activities of entities where the specific risk is able to be sufficiently addressed by the comparison of import declarations submitted to Customs and Border Protection with the commercial documents provided by the company. Conducted in Customs and Border Protection's offices and will require the production of commercial documents .
	Declaration Validation Examinations	Conducted on containerised sea cargo at the Container Examination Facilities to verify that information declared to Customs is correct. Conducted when a container is selected for unpacking. The actual contents of the container are cross-checked against the FID and any errors noted in EXAMS.

Category	Treatment type	Description
Post transaction verification (non-audit) (continued)	Leverage exercises	Used where common errors or mistakes by a number of separate entities have been observed. Involve writing to the entities inviting them to consider or review transactions which may be affected and to bring to Customs and Border Protection's attention any matters which require amendment. Customs and Border Protection will assess the need for further attention based on the entities' response (or lack of it).
	Saturation exercises	Provide a snapshot of the level of overall risk associated with a particular area of risk and can confirm the validity of risk profile assumptions or indicate a change in the risk profile. Can be used to monitor areas currently not subject to close scrutiny and be the catalyst to escalate the attention as required.[132]
	Campaigns	National programs of activity undertaken in conjunction with other divisions or solely undertaken by Compliance Assurance Branch. Aimed at testing assumptions about how work is currently done, gathering evidence about the extent or severity of risks and by providing information on the effectiveness of current intervention approaches. Similar to saturation exercises but are generally more complex and run over a longer period of time.
Compliance assurance monitoring		Various types of monitoring of the import/export environment to assist in the identification of possible risks or problem areas. Types of monitoring include: • reports compiled by Compliance Assurance Branch's Data Monitoring Team to identify unusual trends in the import, export and storage of cargo; • the Compliance Monitoring Program (CMP) which involves the checking of a random selection of import and export declarations; and • monitoring trends in the processing of refund claims.

[132] For example, in early 2011 Customs and Border Protection undertook saturation exercises at two depots where approximately 500 packages were screened from a single flight. This involved comparing the declared value with the goods description and, if unsatisfied, with any commercial documents within the package.

Category	Treatment type	Description
Cargo control and accounting (CC&A)		Activities aimed at entities responsible for the physical movement, security and storage of cargo, including Cargo Terminal Operators and licensed depots and warehouses. These activities seek to ensure that the cargo industry maintains continuous physical security of import, export and transhipment cargo, from the time it enters Customs control until its release is authorised. There are 32 different CC&A activities comprising actual checks at the entity's premises. Examples of CC&A activities are: • timeliness of the production of various reports required under the Customs Act (such as cargo and arrival reports); • real–time 'gate' checks of vehicles arriving or leaving from CTOs and licensed depots and warehouses; and checks to see whether cargo that has been the subject of a 'hold' is where it is supposed to be held.
Licensing		Depot and Warehouse licences impose a variety of conditions, including security arrangements and 'fit and proper person' checks on licensees and their employees. Activities include: • verifying compliance with the conditions in the licence, including the probity of key personnel; • verifying the completeness, accuracy and timeliness of information created by the cargo industry on the nature and location of cargo; • examining the physical security of licensed premises; and • ensuring compliant record-keeping and notification of currency of key individuals within the licensed establishment.

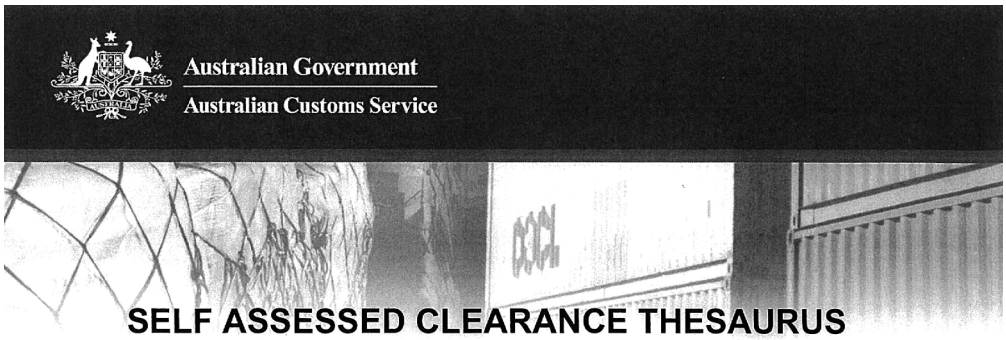
Source: Customs and Border Protection.

Appendix 3: Previous ANAO observations about evaluation of effectiveness of profiles and alerts

Audit report	Observation
Audit Report No.54 2001–02 *Drug detection in Air and Containerised Sea Cargo and Small Craft.*	The ANAO found that, historically, there has been little evaluation of profiles from a national Australia–wide perspective… **To address this risk, Customs should have mechanisms in place that will ensure profiles are adequately reviewed, properly maintained and based on current intelligence.**
Audit Report No.16 2004–05 *Container Examination Facilities.*	One of the key aspects of the transition to ICS is the requirement to ensure that profiles within existing systems are relevant and effective. A system profile review was undertaken by Customs…[The review] reinforced the need to regularly evaluate all profiles… The ANAO found that, generally, the only evaluation of regional profiles is monitoring the expiry date of the profiles and asking the originating authority if they want the profile continued or cancelled. **The ANAO has been advised that the processes for regularly reviewing and evaluating the effectiveness of profiles under ICS will be outlined in a standard operating procedure**.
Audit Report No.18 2005–06 *Customs' Compliance Assurance Strategy for International Cargo.*	The ANAO was then advised that the Cargo Risk Assessment system includes a number of reports to assist in evaluating the effectiveness of profiles. As well, the **processes for creating, reviewing and evaluating the effectiveness of profiles in ICS will be outlined in standard operating procedures to be developed by Central Office.**
Audit Report No.24 2006–07 *Customs' Cargo Management Re-engineering Project.*	The limited reporting and data interrogation capability has meant that Customs is unable to determine the effectiveness of its profiles or retrieve data for research and intelligence assessments. **The ANAO has raised these issues in previous audits and was advised that they would be addressed with the implementation of the ICS.**
Audit Report No.4 2007–08 *Container Examination Facilities Follow–up.*	In the current audit, the ANAO identified two areas which offer further opportunities for improvement. These related to the adoption of improved analytical tools for evaluating cargo information and for **measuring the effectiveness of cargo profiles. Customs has undertaken to review these issues**.
Audit Report No.4 2007–08 *Container Examination Facilities Follow–up.*	Currently the ability to measure the effectiveness of a risk profile is limited to reviewing the number of matches against that profile… Customs advised that it is undertaking a review of all profiles nationally… **This review also includes a project for developing means to measure the effectiveness of profiles.**

Source: ANAO.

Appendix 4: SAC Thesaurus



SELF ASSESSED CLEARANCE THESAURUS

(Version 1, 25 July 2005)

1. Drug
2. Medicine
3. Pharmaceutical
4. Herb
5. Vitamin
6. Traditional medicine
7. Tablet
8. Capsule
9. Caps
10. Tabs
11. Pill
12. Hormone
13. Supplement
14. Tobacco
15. Cigarette
16. Cigar
17. Chewing tobacco
18. Snuff
19. Alcohol
20. Drink
21. Spirit
22. Wine
23. Beer
24. Scotch
25. Brandy
26. Schnapps
27. Grappa
28. Port
29. Insect
30. Animal
31. Fish
32. Marine
33. Skin
34. Fur
35. Ivory
36. Coral
37. Shell
38. Clam
39. Seed
40. Pelt
41. Plant
42. Wood
43. Vegetation
44. Asbestos
45. Cement
46. Brake
47. Fire
48. Glazed
49. Chemical
50. Sodium
51. Sulphur
52. Hydrogen
53. Explosive
54. Zinc
55. Magnesium
56. Gas
57. Nuclear
58. Biological
59. Micro organism
60. Toxin
61. Waste
62. Weapon
63. Ammunition
64. Gun
65. Rifle
66. Knife
67. Knives
68. Dagger
69. Pistol
70. Armour
71. Grenade
72. Cannon
73. Military
74. Mine
75. Missile
76. Bullet
77. Fuse
78. Cartridge
79. Shellcase
80. Rocket
81. Torpedo
82. Flare
83. Stungun
84. Taser
85. Blowpipe
86. Nunchakus
87. Crossbow
88. Blade
89. Axe
90. Knuckleduster
91. Slingshot
92. Throwing star
93. Dart
94. Flail
95. Baton
96. Firearm
97. Collar
98. Jewel
99. Precious stone
100. Diamond
101. Gem
102. Metal
103. Gold
104. Silver
105. Personal effects
106. Household effects
107. Household goods
108. Carnet
109. Car
110. Vehicle
111. Motor bike
112. Truck
113. Van
114. Bacteria
115. Caviar
116. Lighter
117. Dog Collar
118. Refrigerant
119. Rum
120. Bourbon
121. Whisky
122. Vodka
123. Bomb
124. Handgun
125. Prescription medicine
126. Analgesic
127. Ammo
128. Pyrotechnic device
129. Fossil
130. Fireworks
131. Silencer
132. Uranium
133. Plutonium
134. Lithium
135. Toothfish

For more information
Go to: www.cargosupport.gov.au
Email: cargosupport@customs.gov.au
Phone: 1300 558 099

Source: Customs and Border Protection.

Index

Series Titles

ANAO Audit Report No.1 2011–12

The Australian Defence Force's Mechanisms for Learning from Operational Activities
Department of Defence

ANAO Audit Report No.2 2011–12
Confidentiality in Government Contracts: Senate Order for Departmental and Agency Contracts (Calendar Year 2010 Compliance)

ANAO Audit Report No.3 2011–12
Therapeutic Goods Regulation: Complementary Medicines
Department of Health and Ageing

ANAO Audit Report No.4 2011–12
Indigenous Employment in Government Service Delivery

ANAO Audit Report No.5 2011–12
Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework

ANAO Audit Report No.6 2011–12
Fair Work Education and Information Program
Department of Education, Employment and Workplace Relations

ANAO Audit Report No.7 2011–12
Establishment, Implementation and Administration of the Infrastructure Employment Projects Stream of the Jobs Fund
Department of Infrastructure and Transport

ANAO Audit Report No.8 2011–12
The National Blood Authority's Management of the National Blood Supply
National Blood Authority

ANAO Audit Report No.9 2011–12
Indigenous Secondary Student Accommodation Initiatives
Department of Families, Housing, Community Services and Indigenous Affairs
Department of Education, Employment and Workplace Relations

ANAO Audit Report No.10 2011–12
Administration of the National Partnership on Early Childhood Education
Department of Education, Employment and Workplace Relations

ANAO Audit Report No.11 2011–12
Implementation and Management of the Housing Affordability Fund
Department of Families, Housing, Community Services and Indigenous Affairs
Department of Sustainability, Environment, Water, Population and Communities

ANAO Audit Report No.12 2011–12
Implementation of the National Partnership Agreement on Remote Indigenous Housing in the Northern Territory
Department of Families, Housing, Community Services and Indigenous Affairs

ANAO Audit Report No.13 2011–12
Tasmanian Freight Equalisation Scheme
Department of Infrastructure and Transport
Department of Human Services

ANAO Audit Report No.14 2011–12
Indigenous Protected Areas
Department of Sustainability, Environment, Water, Population and Communities

Current Better Practice Guides

The following Better Practice Guides are available on the ANAO website.

Public Sector Audit Committees	Aug 2011
Human Resource Information Systems	
Risks and Controls	Mar 2011
Fraud Control in Australian Government Entities	Mar 2011
Strategic and Operational Management of Assets by Public Sector Entities –	
Delivering agreed outcomes through an efficient and optimal asset base	Sep 2010
Implementing Better Practice Grants Administration	Jun 2010
Planning and Approving Projects	
an Executive Perspective	Jun 2010
Innovation in the Public Sector	
Enabling Better Performance, Driving New Directions	Dec 2009
SAP ECC 6.0	
Security and Control	Jun 2009
Preparation of Financial Statements by Public Sector Entities	Jun 2009
Business Continuity Management	
Building resilience in public sector entities	Jun 2009
Developing and Managing Internal Budgets	Jun 2008
Agency Management of Parliamentary Workflow	May 2008
Public Sector Internal Audit	
An Investment in Assurance and Business Improvement	Sep 2007
Fairness and Transparency in Purchasing Decisions	
Probity in Australian Government Procurement	Aug 2007
Administering Regulation	Mar 2007
Developing and Managing Contracts	
Getting the Right Outcome, Paying the Right Price	Feb 2007
Implementation of Programme and Policy Initiatives:	
Making implementation matter	Oct 2006
Legal Services Arrangements in Australian Government Agencies	Aug 2006