The Auditor-General Audit Report No.16 2004–05 Performance Audit

# **Container Examination Facilities**

Australian Customs Service

Australian National Audit Office

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Canberra ACT 14 December 2004

Dear Mr President Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Australian Customs 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. The report is titled *Container Examination Facilities.* 

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

P. J. Barrett 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. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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# **Abbreviations**

AQIS	Australian Quarantine Inspection Service
ARPANSA	Australian Radiation Protection and Nuclear Safety Agency
CATO	Competency Assessment Training Officer
CEF	Container Examination Facility
COMPILE	Customs Online Method of Preparing from Invoices Lodgeable Entries
CRA	Cargo Risk Assessment
СТО	Container Terminal Operator
Customs	Australian Customs Service
DVE	Declaration Validation Examination
EXAMS	Examination Data Management System
FCL	Full Container Load
IA	Image Analyst
ICS	Integrated Cargo System
ISO	International Organisation for Standardisation
LCL	Less than Container Load
LEAs	Law Enforcement Agencies
NIS	National Intelligence System
P&A	Profiling & Alerts
PIR	Post Implementation Review
RI&I	Risk Identification & Intelligence
SCA	Sea Cargo Automation System
SOP	Standard Operating Procedure
TSC	Target Selection Coordinator
TSO	Target Selection Officer

# Summary and Recommendations

# Summary

# Background

**1.** The maritime transport sector contributes over \$180 billion annually to Australia's economy. Seventy-four per cent of Australian exports and imports are moved by ship and, by 2010, container movements are expected to grow by 45 per cent.<sup>1</sup>

**2.** Following recent terrorist attacks, there is increased global awareness and concern about border security. It is internationally recognised that the maritime sector could be a target and/or vehicle for terrorism.<sup>2</sup> The Government recently announced several major maritime security initiatives. Included in these initiatives was a \$75.4 million maritime security-funding package for the Australian Customs Service (Customs), the regulatory agency with primary responsibility for protecting Australia's borders.

**3.** Customs plays a vital role in preventing illegal and harmful goods from entering Australia. To strengthen its border protection capability, Customs established Container Examination Facilities (CEFs) in Melbourne, Sydney, Brisbane and Fremantle as part of a more comprehensive and integrated approach to sea cargo examination in Australia's major ports. Together, these ports cover around 94 per cent of imported sea cargo containers.

# Role of CEFs in border protection

**4.** Prior to the introduction of the Container X-ray Strategy, Customs examined approximately 11 000 containers each year.<sup>3</sup> The establishment of the CEFs has allowed Customs to significantly increase this number. A national inspection target of 80 600 containers per year (approximately 5 per cent of loaded sea cargo importations) was set.<sup>4</sup> This target was increased to 100 880 containers in July 2004, as part of the Government's enhanced maritime security arrangements.<sup>5</sup>

<sup>&</sup>lt;sup>1</sup> Office of Transport Security, Department of Transport and Regional Services, *Maritime Risk Context Statement*, December 2003, p. 4.

<sup>&</sup>lt;sup>2</sup> ibid.

<sup>&</sup>lt;sup>3</sup> Approximately 3 000 containers were for border protection purposes and the other 8 000 containers as part of commercial compliance activities.

<sup>&</sup>lt;sup>4</sup> This annual inspection target included 26 000 containers in Sydney and Melbourne, 13 000 in Fremantle and 15 600 in Brisbane.

<sup>&</sup>lt;sup>5</sup> This will increase annual inspections to 28 600 in Sydney, Brisbane and Melbourne and 15 080 in Fremantle, approximately 7 per cent of loaded sea cargo importations.

**5.** The CEFs integrate container x-ray technology with physical examination and a range of other technologies such as pallet and mobile x-ray units, ionscan technology and radiation and chemical warfare agent detectors. The facilities were designed to address the full range of Customs risks, including counter terrorism. The explicit aims of the CEFs are to:

- prevent the flow of illicit drugs, weapons and other harmful goods into Australia;
- minimise losses to revenue from smuggling and other forms of revenue evasion in sea cargo;
- protect legitimate industry from non-compliant importers and exporters through detection and deterrence; and
- improve the security of sea cargo trade in Australia, ensuring Australian business benefits through facilitation in key markets.

#### Maritime environment

6. The CEFs operate within Australia's complex maritime environment. Stevedores generally operate 24 hours a day, seven days a week for ship discharge and loading. Considerable logistical planning is required to maintain CEF throughput. Selecting and transporting containers to and from the CEFs has a substantial impact on the sea cargo logistics chain. The stakeholders impacted by the establishment of the CEFs are extensive and include industry (freight companies—road and rail; stevedores; consolidators; importers; exporters; and brokers) as well as State and Commonwealth government authorities involved in border protection.

# Audit objective and scope

**7.** The objective of the audit was to assess the administrative effectiveness of Customs' CEFs. Particular emphasis was given to the following areas:

- target selection processes;
- target development strategies;
- intervention processes; and
- facilities operation.

**8.** In undertaking this audit, the ANAO recognises that some of the processes associated with selecting containers will change with the planned introduction of the Integrated Cargo System (ICS) in 2005. ICS is the information technology component of the Cargo Management Re-engineering project. It will be a single electronic reporting system, replacing four existing

transaction-processing systems. Any suggestions for improvement have taken these new arrangements into consideration.

# Audit findings and overall conclusion

# **Target Selection—Chapter 2**

**9.** Target selection is the day-to-day operation of screening cargo data for indicators of risk. Cargo reports are assessed by Target Selection Officers (TSOs), using a combination of risk indicators and system profiles<sup>6</sup>, to determine whether the cargo will be released immediately or referred to the CEF for further examination. The ANAO found that Customs has effective systems and processes for risk assessing and targeting sea cargo consignments and these have been implemented across all regions.

### Selecting targets for the CEFs

**10.** TSOs are required to select sufficient containers to ensure that CEF inspection targets are achieved. The ANAO reviewed the number of cargo reports targeted for each CEF since it opened until 1 September 2004. We found that none of the regions selected sufficient containers to enable the CEFs to meet their inspection targets, particularly Sydney and Fremantle who selected 90 per cent and 87 per cent respectively. The ANAO considers that this is an area that needs to be monitored closely by Customs, particularly as the CEFs' inspection targets have recently increased.

#### Logistical coordination of targets

**11.** The logistical coordination of selected containers is the responsibility of the Target Selection Coordinator (TSC) in each region. This position involves, amongst other things, ensuring a continuous flow of containers to the CEF and maintaining a sufficient number of selections to meet the CEF's daily throughput targets. However, the responsibilities associated with the position are not clearly defined between the Profiling & Alerts (P&A) group and the CEF and have been interpreted differently across the regions. There is also no training or guidelines for this specialist position.

#### Logistical coordination support system

**12.** It would appear that Customs had little understanding of the complex and time-consuming nature of the logistical task. The Victorian TSC developed

<sup>&</sup>lt;sup>6</sup> A profile is one or a cluster of risk indicators (such as the origin of the consignment, the port of loading or concealment potential of the cargo) that, when grouped together, present the characteristics of a high-risk consignment.

a database (SCATHING) to provide an electronic solution for managing the logistical coordination process. The volume of cargo being selected by Victoria and New South Wales on a daily basis meant that it was not possible to manage this process manually. Queensland and Western Australia prefer not to use this database, mainly because they are smaller regions and it is not tailored to their requirements.

**13.** Customs' IT service provider does not support the SCATHING database. There is no documentation or corporate knowledge to allow any modifications to the database because the officer who developed it is on long-term sick leave. The information in SCATHING is also available in the Examination Data Management (EXAMS) system.<sup>7</sup> The ANAO considers that Customs should adopt a consistent national approach to logistical coordination and use the EXAMS system rather than the unsupported SCATHING database or the spreadsheets used by Queensland and Western Australia.

# Target Development—Chapter 3

14. Target development and risk profiling are interdependent and effective risk profiling requires high quality and current intelligence. The ANAO considers that Customs' intelligence framework is comprehensive, well structured and generally well implemented, although more effective communication strategies could be adopted in some regions. Customs has also developed and implemented strategies and protocols for sharing information and intelligence with other law enforcement agencies. The ANAO considers Customs' intelligence capability effectively supports its target development and risk profiling activities.

### **Operational intelligence**

**15.** Prior to the establishment of its CEF, Western Australia completed a systematic analysis of sea cargo containers being discharged into Fremantle. The other CEF regions have not completed an operational assessment of their sea cargo environments. Although we appreciate the resource implications of undertaking such an assessment, particularly in the larger ports, we consider there would be benefits for target development and selection processes in doing so. The assessments would provide a sound basis for developing, reviewing and refining regional risk profiles and target development strategies for sea cargo discharging into these ports.

<sup>&</sup>lt;sup>7</sup> The TSO creates an examination record in the EXAMS system, which is the interface between the P&A area and the CEFs.

#### National country of origin profiles

16. A system profile review was undertaken by Customs between February 2003 and March 2004. The review team evaluating the national country of origin profiles currently in the Sea Cargo Automation system, recommended further examination of these profiles. Customs recognises the limitations of its current approach to country of origin profiling and is considering alternative approaches to risk-rating and targeting countries of origin. Customs' draft National Cargo Targeting Strategy recommended that an expert panel review this data and other evidence and re-evaluate the true risk ratings for all major countries. The ANAO fully supports these recommendations. However, to date this panel has not been convened or a review initiated.

# Intervention Processes—Chapter 4

**17.** The establishment of the CEFs has enabled Customs to significantly increase its intervention capability. As previously advised, the Government has increased funding to allow the CEFs to inspect 100 880 containers annually and physically examine 10 per cent of these containers. The ANAO found that Customs has well defined and documented processes for inspecting and physically examining containers. These processes are understood by all CEF staff and contractors and have been implemented by all regions.

#### **Physical examinations**

**18.** The ANAO sought to determine if each CEF had physically examined 10 per cent of inspected containers. Our analysis indicates that none of the regions achieved this target for the period from opening until 1 September 2004. As all priority one containers require a physical examination, we also analysed the EXAMS data by priority rating for the same period. We found that none of the regions examined all priority one containers. In particular, Brisbane and Melbourne examined around 60 per cent and 72 per cent, respectively. The ANAO suggests that Customs regularly monitor the physical examination of priority one containers to ensure that they are being completed. We also consider that the target of 10 per cent should be regularly reviewed to ensure its continued relevance.

#### **Recording inspections and examinations**

**19.** All regions raised concerns regarding the EXAMS system data entry requirements, the difficulties associated with accessing, extracting and analysing examinations results data and the integrity of the data. To overcome the perceived inadequacies of this system, Sydney, Brisbane and Fremantle CEFs developed local databases to record examination information, throughput statistics and container turnaround times.

**20.** The ANAO compared EXAMS data generated through the Corporate Research Environment (CRE)<sup>8</sup> in Central Office with data provided by the regions for the period 1 March 2004 to 31 August 2004. The ANAO was unable to reconcile the data sets for the number of containers selected.<sup>9</sup> Our analysis, and subsequent discussions with the regions, has demonstrated that there are no clear search parameters or common system business rules that the regions can use to generate CEF reports. It has also highlighted that there are no reports in CRE that are specific to the CEFs.

### Inspections and physical examinations data

**21.** The ANAO compared inspections and physical examinations data from the EXAMS system with each region's local database for the same six-month period. We found that there were considerable differences between the data sets for Brisbane and Fremantle.<sup>10</sup> We were also unable to validate the EXAMS data for 'positive finds' with the regional databases. To determine a reasonably accurate representation of the number of positive finds, each region provided the ANAO with a spreadsheet giving a description of the find and/or referral.<sup>11</sup>

### **Positive finds**

**22.** Our analysis has highlighted that there are inconsistencies in how a positive find is being recorded. As a consequence, incorrect and inaccurate data is being recorded in the EXAMS system. For example, the regions consider all referrals to other areas to be positive finds, regardless of whether there is a positive or negative outcome or the record has been completed. The EXAMS system only records a find when the outcome is positive and the record has been completed by the CEF or relevant area. An analysis of the EXAMS system showed that, in late August 2004, approximately 5 000 records had not been completed.

**23.** Customs currently has significant data integrity problems in this area and is unable to accurately assess or report the performance of the CEFs. If inspection and examination information is to be captured correctly and consistently across regions, Customs needs to develop guidelines that clearly

<sup>&</sup>lt;sup>8</sup> The Corporate Research Environment (CRE) has been established to provide Customs with an integrated analytical facility, supporting a wide variety of data sources and users.

<sup>&</sup>lt;sup>9</sup> The differences ranged from 1 571 containers in Melbourne to two containers in Fremantle.

<sup>&</sup>lt;sup>10</sup> The differences between the local database and the EXAMS system for x-ray inspections were 120 for Brisbane and 154 for Fremantle and for physical examinations 37 for Brisbane and 25 for Fremantle. The differences for Sydney were negligible.

<sup>&</sup>lt;sup>11</sup> For Melbourne and Sydney this data was available from when the CEF opened. For Brisbane and Fremantle the data was only available from when their databases became operational.

articulate what constitutes a positive find, how positive finds are to be recorded and treated in the EXAMS system and who is responsible for completing the record.

#### Monitoring and reporting performance outcomes

**24.** Performance information should enable Customs to assess the effectiveness and impact of its container x-ray strategy. It should also allow managers to monitor progress, prioritise direction and resources, give feedback to staff and provide assurance to Government that stated objectives are being achieved. The current performance measures do not enable Customs to assess the operational effectiveness of the CEFs. In December 2003, Customs commenced a Performance Measurement Project and is currently reviewing performance measures across its outputs. The ANAO considers that the performance measures relating to the CEFs should be reviewed as part of this project.

# **Facilities Operation—Chapter 5**

#### **CEF** inspection targets

**25.** As previously stated, a national target of 80 600 containers per annum was initially determined for the CEFs when all were fully operational. The ANAO reviewed the inspection targets achieved by each CEF from when it became operational until 1 September 2004. We found that none of the CEFs have achieved their inspection targets. The CEF managers highlighted several factors that would impact on achieving these targets, including insufficient containers being selected. However, the ANAO was advised that, on occasions, the CEFs have requested the TSOs to reduce the number of containers being selected, as they were experiencing difficulties in managing the throughput of the containers already selected.

**26.** We also analysed, for the same period, the number of selections cancelled. This analysis highlighted that selected containers were cancelled despite the number of selections being below inspection targets. In particular, Fremantle and Brisbane cancelled around 6 per cent and 5 per cent respectively of the total number of selections.

#### Industry liaison

**27.** Customs recognises the importance of liaising with industry and, as part of the Container Examination Project, consulted widely with industry groups prior to the CEFs opening. Ongoing industry consultation and feedback is maintained through Customs participation in various industry consultative forums in each region. Customs' recent Post Implementation

Review (PIR) recommended developing, in consultation with peak industry bodies, a communication strategy. The ANAO supports this initiative.

#### Storage charges

**28.** As part of the PIR, Customs also asked industry to provide comments on the operational business processes of the CEFs. One of the issues raised was storage charges. The Container Terminal Operators provide free storage for containers for 72 hours (three days) from when the container has been declared available and storage charges apply to containers not collected after this time. If containers take longer than three days to go through the CEF, storage charges will apply. Part of the Government's strategy to strengthen maritime security involves extending the hours of operation of all CEFs to include an eight-hour shift on Saturday and to increase the Brisbane CEF's hours of operation to two shifts Monday to Friday. The ANAO considers that the extension of CEF operating hours should help to alleviate some of industry's concerns relating to storage charges.

### Customs' management of CEF contracts

**29.** In all regions, Customs has negotiated contracts with a number of service providers for logistics services (container handling, transport and unpack/repack services). Customs also has in place a maintenance contract for the three east coast container x-ray machines.

**30.** The maintenance contract was finalised with the manufacturer in April 2004, on completion of the 12-month warranty period.<sup>12</sup> The contract is for a fixed price, with engineers located on-site at all CEFs. All CEF managers advised the ANAO that they are satisfied with the service provided by the contractor and any equipment failure is repaired immediately.

**31.** Customs advised that, overall, performance against the logistics services contracts is reasonably effective. However, it is recognised that performance and, particularly some key performance indicators, could be improved. There are also a number of operational issues within the contracts that must be resolved. Of major concern are the following areas: development of logistics plans; physical segregation and prioritisation of selected containers; and priority access for the transport services contractor.

**32.** It is a requirement of the container handling and transport services contracts that logistics plans are developed in consultation with Customs. To date, no plans have been developed or signed off by all parties for any of the CEF ports. In the ANAO's view, a number of the problems associated with the

<sup>&</sup>lt;sup>12</sup> The 12-month warranty period for the Fremantle container x-ray machine expired in November 2004 and Customs advised that it was in the process of negotiating a maintenance contract with the manufacturer.

logistical arrangements for segregating, prioritising and transporting containers would be identified and addressed as part of the process of developing a logistics plan for each port.

#### Monitoring performance

**33.** The ANAO found a number of deficiencies in Customs monitoring of performance against requirements outlined in the logistic services contracts. Customs' recent PIR recommended a review of the contracts associated with logistics services be undertaken. The ANAO fully supports this recommendation. However, we also consider the review should be more comprehensive and include an assessment of risks, evaluation of existing specifications and performance measures and the development of a standardised reporting regime.

# **Overall conclusion**

**34.** Overall, the ANAO concluded that Customs' CEFs are administratively effective. We found that Customs has implemented effective systems and processes for target selection and development. Its intervention capability has also increased significantly with the establishment and ongoing operation of the facilities. However, we have identified a number of areas where improvements could be made to strengthen administration and improve the operational effectiveness of the CEFs. These include:

- adopting a national and consistent approach to the logistical coordination process, including clearly defining the roles and responsibilities of the target selection coordinator's position and providing training for this position;
- completing an operational assessment of sea cargo imports and exports being discharged in CEF ports;
- reviewing the risk profiles of origin countries to strengthen high-risk country identification;
- developing common system business rules and reporting parameters for the EXAMS system;
- developing and implementing guidelines that clearly articulate what constitutes a positive find at the CEF, how this information is to be recorded and treated in the EXAMS system and who is responsible for completing records;
- developing performance measures and targets specific to the CEFs to assess the operational effectiveness of Customs' container x-ray strategy;

- developing logistics plans in all CEF ports to address problems associated with segregating, prioritising and transporting selected containers to and from the CEFs; and
- undertaking a comprehensive review of logistics services (container handling, transport and unpack/repack) contracts.

### **Recommendations**

**35.** The ANAO has made eight recommendations aimed at improving the administrative effectiveness of the CEFs.

# Agency response

**36.** Customs welcomes the report and has agreed with all the recommendations. The audit has already been of considerable benefit. Action to implement the recommendations is already underway and Customs is sure this will facilitate further improvements in CEF performance. Customs full response is at Appendix 1.

# **Recommendations**

The ANAO has made eight recommendations aimed at improving the administrative effectiveness of the CEFs. Report paragraph references and abbreviated Customs' responses are also included. More detailed responses are shown in the body of the report. The ANAO considers that Customs should give priority to Recommendations 2, 5, 7 and 8.

Recommendation No.1 Para. 2.40	To more effectively manage logistical coordination, the ANAO recommends that Customs consider adopting a consistent national approach by:		
	(a)	assessing the feasibility of using the EXAMS system to monitor and track selected containers, including the reporting capability of the Corporate Research Environment;	
	(b)	clearly defining the roles and responsibilities associated with the target selection coordinator's position; and	
	(c)	providing appropriate training and developing procedural guidelines for this specialist position.	
	Custor	<i>ns response</i> : Agree.	
Recommendation No.2 Para. 3.15	To stre process sea can the Al Victori	engthen target development and target selection ses and to provide a better understanding of the rgo environment in which regions are operating, NAO recommends that the New South Wales, an and Queensland regions:	
	(a)	complete an assessment of the sea cargo imports and exports discharging into their respective ports; and	
	(b)	regularly review and update this data so that it may be used as a reference source for developing risk profiles.	

*Customs response*: Agree.

Recommendation	To strengthen high-risk country identification and target
No.3	selection practices, the ANAO recommends that
Para. 3.39	Customs review the risk profiles of cargo origin
	countries and, as part of this review:

- (a) re-evaluate the risk ratings for all major countries;
- (b) revise the weighting applied to country risks; and
- (c) develop a process to regularly review this risk rating set.

Customs response: Agree.

RecommendationTo enable accurate reporting of the inspections and<br/>examinations carried out by the Container Examination<br/>Facilities (CEFs) using EXAMS system data, the ANAO<br/>recommends that Customs develop:

- (a) common system business rules and reporting parameters for the EXAMS system; and
- (b) standardised report templates in the Corporate Research Environment that are specific to the CEFs.

Customs response: Agree.

No.5 Para. 4.29	and co develo articul	onsistently, the ANAO recommends that Customs op and implement guidelines that clearly ate:
	•	what constitutes a positive find at the Container Examination Facility (CEF), including when the cargo is referred to another area;
	•	how the find is to be recorded by the CEF in the EXAMS system;
	•	how this information will be treated by the EXAMS system; and
	•	who is responsible for completing the EXAMS record.
	Custo	<i>ms response</i> : Agree.
Recommendation No.6 Para. 4.46	To ena Exami report	able the operational effectiveness of the Container nation Facilities (CEFs) to be assessed and ed on, the ANAO recommends that Customs:
	(a)	develop performance measures and targets specific to the CEFs; and
	(b)	include these measures in Customs' Outcome/Outputs framework performance information.

To capture inspection and examination data accurately

Recommendation

*Customs response*: Agree.

Recommendation
 No.7
 Para. 5.46
 To identify and address problems associated with segregating, prioritising and transporting selected containers to and from the Container Examination Facilities (CEFs), the ANAO recommends that Customs, in consultation with the container terminal operators and transport service providers, develop a logistics plan for each CEF port.

#### Customs response: Agree.

Recommendation No.8 Para. 5.52 Prior to renegotiating its container handling, transport services and unpack and repack services contracts, the ANAO recommends that Customs undertake a comprehensive review of these contracts including:

- an assessment of the risks associated with the contracted service delivery;
- benchmarking performance across ports;
- an evaluation of existing service level agreements, service specifications and key performance indicators;
- reviewing the existing performance management framework; and
- developing a standardised performance reporting regime.

Customs response: Agree.

# Audit Findings and Conclusions

# 1. Background and Context

This chapter discusses the Australian Customs Service's border management role and how its border protection capability has been strengthened by the Container Examination Facilities (CEFs). The complex maritime environment in which the CEFs are operating is also discussed. The objective and scope of the audit and structure of the report are outlined.

# Introduction

**1.1** The maritime transport sector contributes over \$180 billion annually to Australia's economy. Seventy-four per cent of Australian exports and imports are moved by ship and, by 2010, container movements are expected to grow by 45 per cent.<sup>13</sup>

**1.2** Following recent terrorist attacks, there is increased global awareness and concern about border security. It is internationally recognised that the maritime sector could be a target and/or vehicle for terrorism.<sup>14</sup> In response to these threats, the International Maritime Organisation developed a preventative security regime to enhance security at ports, port facilities and on board ships. This new regime has been given effect through amendments to the Safety of Life at Sea (SOLAS) Convention, 1974. Australia is a signatory to SOLAS and adopted these amendments. The Australian Government introduced the *Maritime Transport Security Act 2003* to provide a framework for Australia's maritime security regime.

**1.3** The Government recently announced several major maritime security initiatives. Included in these initiatives was a \$75.4 million maritime security-funding package for the Australian Customs Service (Customs), the regulatory agency with primary responsibility for protecting Australia's borders.

# Customs' border management role

**1.4** Customs is organised into six divisions<sup>15</sup> and has three principal roles:

<sup>&</sup>lt;sup>13</sup> Office of Transport Security, Department of Transport and Regional Services, *Maritime Risk Context Statement*, December 2003, p. 4.

<sup>&</sup>lt;sup>14</sup> ibid.

<sup>&</sup>lt;sup>15</sup> Cargo and Trade; Border Intelligence and Passengers; Border Compliance and Enforcement; Coastwatch; Information and Office Technology; and Office of Business Systems and a Governance Group.

- to facilitate trade and the movement of people across the Australian border while protecting the community and maintaining compliance with Australian law;
- to efficiently collect customs revenue; and
- to administer industry specific schemes and trade measures.<sup>16</sup>

**1.5** Customs plays a vital role in preventing illegal and harmful goods from entering Australia. It has to balance this community protection role with the need to ensure the legitimate movement of goods across the border is not unnecessarily impeded. Not every consignment of goods that enters or leaves Australia represents a risk to Customs' border controls. Customs experience has been that the vast majority of importations are legitimate. A small number will, however, contain prohibited and restricted items.<sup>17</sup> Similarly, most importers will pay the correct customs duty, with only a small minority misreporting, undervaluing or misdescribing goods to avoid paying duty.

**1.6** Given the sheer volume of cargo importations, it is neither feasible nor practical for Customs to examine every consignment. Customs adopts a risk management approach and has in place a complex infrastructure and processes for screening, risk assessing, targeting and examining sea cargo containers. Customs is primarily driven by intelligence and works closely with other law enforcement agencies, particularly the Commonwealth and State Police Forces. It also has international links to foreign Customs services and overseas law enforcement and security agencies, which is increasingly important in these times of terrorism and transnational crime.

**1.7** To strengthen its border protection capability, Customs established Container Examination Facilities (CEFs) in Melbourne, Sydney, Brisbane and Fremantle as part of a more comprehensive and integrated approach to sea cargo examination in Australia's major ports.<sup>18</sup> Together, these ports cover around 94 per cent of imported sea cargo containers. A fifth smaller CEF is being constructed in Adelaide and is expected to be fully operational by March 2005.<sup>19</sup>

<sup>&</sup>lt;sup>16</sup> Australian Customs Service, Annual Report 2002–03 Securing Australia: working together, p. 12.

<sup>&</sup>lt;sup>17</sup> Prohibited and restricted items include illicit drugs, weapons, pornography, unsafe products, therapeutic goods, wildlife, quarantine items and items that breach intellectual property rights.

<sup>&</sup>lt;sup>18</sup> The Melbourne CEF opened in November 2002, the Sydney and Brisbane facilities in March 2003 and the Fremantle CEF in November 2003.

<sup>&</sup>lt;sup>19</sup> The Adelaide facility will not have container x-ray technology. The facility will have a German-made 2.5 million-electron volt dual-view x-ray system to inspect pallets of imported goods.

### Role of CEFs in border protection

**1.8** Prior to the introduction of the Container X-ray Strategy, Customs examined approximately 11 000 containers each year.<sup>20</sup> The establishment of the CEFs has allowed Customs to significantly increase this number. A national inspection target of 80 600 containers per year (approximately 5 per cent of loaded sea cargo importations) was set.<sup>21</sup> This target was based on the capacity of the technology and logistical requirements and consultation with Government regarding an appropriate level of inspection. It was increased to 100 880 containers in July 2004, as part of the Government's enhanced maritime security arrangements.<sup>22</sup>

**1.9** The CEFs integrate container x-ray technology with physical examination and a range of other technologies such as pallet and mobile x-ray units, ionscan technology and radiation and chemical warfare agent detectors. The facilities were designed to address the full range of Customs risks, including counter terrorism. The explicit aims of the CEFs are to:

- prevent the flow of illicit drugs, weapons and other harmful goods into Australia;
- minimise losses to revenue from smuggling and other forms of revenue evasion in sea cargo;
- protect legitimate industry from non-compliant importers and exporters through detection and deterrence; and
- improve the security of sea cargo trade in Australia, ensuring Australian business benefits through facilitation in key markets.

#### Success of the CEFs

**1.10** Customs considers the increase in inspection rates has direct and indirect benefits for industry. A more comprehensive inspection regime provides protection to legitimate industry through the detection and deterrence of non-compliant importers. More comprehensive monitoring allows Customs and other regulatory agencies to establish and validate risk profiles and improve facilitation to low risk clients.<sup>23</sup>

<sup>&</sup>lt;sup>20</sup> Approximately 3 000 containers were for border protection purposes and the other 8 000 containers as part of commercial compliance activities.

<sup>&</sup>lt;sup>21</sup> This annual inspection target included 26 000 containers in Sydney and Melbourne, 13 000 in Fremantle and 15 600 in Brisbane.

<sup>&</sup>lt;sup>22</sup> This will increase annual inspections to 28 600 in Sydney, Brisbane and Melbourne and 15 080 in Fremantle, approximately 7 per cent of loaded sea cargo importations.

<sup>&</sup>lt;sup>23</sup> Australian Customs Service, Container Examination Facilities Post Implementation Review, June 2004, p. 54.

**1.11** There have been a number of major detections at the CEFs involving illicit drugs, alcohol, tobacco and firearms. Compliance breaches such as undeclared, undervalued or misdescribed goods and copyright and trademark infringements have also been identified by the CEFs.

# Maritime environment

**1.12** The CEFs operate within Australia's complex maritime environment. Stevedores generally operate 24 hours a day, seven days a week for ship discharge and loading. Considerable logistical planning is required to maintain CEF throughput. Selecting and transporting containers to and from the CEFs has a substantial impact on the sea cargo logistics chain. The stakeholders impacted by the establishment of the CEFs are extensive and include industry (freight companies—road and rail; stevedores; consolidators; importers; exporters; and brokers) as well as State and Commonwealth government authorities involved in border protection.

**1.13** Environmental factors, often outside Customs control, can impact on the movement of containers to and from the CEFs. These could include the delayed arrival of a vessel due to weather, serviceability of the vessel or delays at preceding ports, industrial action on the wharves and the breakdown of key infrastructure. Shipping patterns also impact on workflow volume, particularly if this means that there is not a consistent flow of containers available to meet throughput targets.

# **Funding arrangements**

**1.14** Funding was allocated to Customs under the *Tough On Drugs* program in the 1999–2000 Budget for increased search capacity and the purchase of x-ray technology. This funding, which included \$9.3 million capital funding, was to enhance Customs' capacity to detect drugs at the border and provided the capital cost of container x-ray facilities in Sydney and Melbourne. The *Protecting Our Borders* initiative in the 2002–03 Budget provided Customs with an additional \$39.8 million over four years to expand its container x-ray procurement program to the ports of Brisbane and Fremantle.<sup>24</sup>

**1.15** The logistics costs associated with the CEFs include the stevedore charges for handling the selected containers, the costs of the transport operations and unpack and repack labour for those containers physically examined. The Import Processing Charge (IPC), paid by industry to recover Customs' cargo processing costs, was increased to partially fund logistics

<sup>&</sup>lt;sup>24</sup> This funding included: \$6 million (2002–03); \$10 million (2003–04); \$11 million (2004–05); and \$12.8 million (2005–06).

costs.<sup>25</sup> In the 2003–04 Budget, Customs was appropriated \$56 million (including \$7.1 million for 2002–03) over four years to cover logistics costs.<sup>26</sup> In the 2004–05 Budget, Customs received additional funding of \$10.6 million to cover logistics costs for two years.<sup>27</sup>

### How the facilities operate

**1.16** Industry is required by law to give Customs advance notice of cargo being imported into Australia.<sup>28</sup> Sea cargo reporting takes the form of manifest lines and shipping companies are required to submit cargo reports<sup>29</sup> via the Sea Cargo Automation (SCA) system 48 hours prior to the vessel's arrival. These reports are assessed by Target Selection Officers (TSOs), using a combination of risk indicators and system profiles<sup>30</sup>, to determine whether the cargo will be released immediately or referred to the CEF for further examination. System profiles are developed through Customs' intelligence activity and its cooperation and information-sharing arrangements with other law enforcement agencies.

**1.17** If a container is selected for inspection, a hold is placed on the cargo in the SCA system, notifying the Container Terminal Operator that the container is to be transported to the CEF. A priority rating<sup>31</sup> is assigned to the cargo and an examination record is created in the EXAMS system, the interface between the TSOs and the CEF.

**1.18** Customs' transport providers are responsible for transporting the containers to and from the CEF. When the truck is driven into the scanning hall an interlocking system ensures that all doors are closed and locked.<sup>32</sup> The x-ray system scans the containers and, once completed, the image is sent to the Image Processing Station. The image analyst will determine what action is required based on the image, priority rating assigned and information

<sup>&</sup>lt;sup>25</sup> The IPC was increased by \$14.35 per consignment to \$44.00 for entries lodged electronically and \$65.75 for manual import entries.

 $<sup>^{26}</sup>$  This additional resourcing included \$7.1 million for 2002–03 and \$16.3 million for years 2003–04, 2004–05 and 2005–06.

<sup>&</sup>lt;sup>27</sup> Funding includes \$7.1 million for 2004–05 and \$3.5 million for 2005–06.

<sup>&</sup>lt;sup>28</sup> Section 67A to 67E of the *Customs Act 1901*.

<sup>&</sup>lt;sup>29</sup> The reports contain general information about the cargo, including the loading port, the consignor (the supplier), the consignee (the owner or receiver) and a description of the cargo.

<sup>&</sup>lt;sup>30</sup> A profile is one or a cluster of risk indicators that, when grouped together, present the characteristics of a high-risk consignment. Customs groups SCA profiles into two categories: national and regional profiles.

<sup>&</sup>lt;sup>31</sup> The priority ratings include: Priority 1 - x-ray and physical examination; Priority 2 - x-ray with a view to physical examination; Priority 3 - x-ray to verify commodities; and Priority 4 - to adjust CEF workflow.

<sup>&</sup>lt;sup>32</sup> While the containers are being scanned, the driver waits in the drivers' waiting room to prevent any radiation risk.

provided by the TSO. If the container is not rated priority one and the image presents no anomalies, the container will be returned to the terminal. The cargo is released in the SCA system and all action taken recorded in the EXAMS system.

**1.19** All priority one containers, and those where an anomaly has been found, are physically examined. If there is a positive find, the cargo will be referred to the relevant authority or Customs' area for further action.<sup>33</sup> If there is no find, the container is repacked, the necessary documentation completed, the hold is lifted in the SCA system and the container is then returned to the terminal. Appendix 2 illustrates these processes.

### **Overseas comparisons**

**1.20** The ANAO and Customs have attempted to compare Australian processes, costs and outcomes with similar programs overseas. Our combined research highlighted considerable variation between the countries reviewed.<sup>34</sup> Although arrangements are different in each country, there are two broad models: x-rays on-site at wharf facilities using mobile scanners, with off-site physical examinations; or all operations off-site at dedicated facilities. Customs found the logistics costs are generally lower for the on-site operations, but container inspection throughput is also less.

**1.21** Where data was available, the rate of examination in Australia and the time taken both compare favourably with overseas administrations. Australia's overall inspection rate is currently 7 per cent of loaded imports. Canada inspects approximately 3 per cent of containers and the United States inspects 5.6 per cent of loaded and empty imported containers.

**1.22** On a comparative cost basis, Australia's model is more cost effective for importers and efficient in terms of throughput. Customs found that, in the United States, importers pay approximately A\$440 per container if their cargo is selected for x-ray. Importers are also responsible for all costs of a full unpack examination, which can range from A\$730–A\$1 470. In Canada, importers must pay transport and unpack costs of A\$876 if their container is selected for full unpack examination. In Belgium, importers are charged approximately A\$177 for logistics costs and A\$1 680 for unpack costs.<sup>35</sup>

<sup>&</sup>lt;sup>33</sup> Illicit drugs will be passed to the Australian Federal Police, compliance-related issues are referred to the Compliance Assurance Branch and alcohol, tobacco or other prohibited imports are referred to the Investigations Branch for further action.

<sup>&</sup>lt;sup>34</sup> Countries included in our review were Canada, the United States, the United Kingdom, Hong Kong, Japan, Belgium, China and Singapore.

<sup>&</sup>lt;sup>35</sup> Australian Customs Service, *Container Examination Facilities Post Implementation Review*, June 2004, p. 56.

**1.23** In Australia, the cost to Customs is, on average, \$285 for container handling, transport and container unpacking and repacking. Importers, through the IPC, contribute to the cost of these logistic services, with the Government meeting the remaining costs.<sup>36</sup> Overseas cost recovery arrangements are a combination of direct charges, budget funding and recovery through a broad levy. Customs has not compared outcomes in terms of detections because the threat profile is considered too variable to allow for any meaningful comparison and analysis.

# Audit objective, scope and methodology

**1.24** The objective of the audit was to assess the administrative effectiveness of Customs' CEFs. Particular emphasis was given to the following areas:

- target selection processes;
- target development strategies;
- intervention processes; and
- facilities operation.

### Audit methodology

**1.25** The audit methodology included visits to the facilities in Melbourne, Sydney, Brisbane and Fremantle and interviews with agency officers and maritime industry stakeholders. We also undertook file and documentation reviews and a combination of qualitative and quantitative analysis.

#### Data analysis

**1.26** As part of our quantitative analysis, we sought to analyse the following data sets for each region stratified by the priority rating assigned to the selection:

- number of containers selected for x-ray;
- number of containers x-rayed;
- number of containers physically examined; and
- number of positive finds.

**1.27** This information was provided from the EXAMS system, which is the national system for recording the selection, inspection and physical examination of a container. However, after consultation with the CEF regions, Customs advised that the data reports contained inaccuracies. The reports had

<sup>&</sup>lt;sup>36</sup> Total logistics costs for 2003–04 were \$18 million.

been generated without taking into account a number of system business rules.  $^{\scriptscriptstyle 37}$ 

**1.28** In order to determine the accuracy of the EXAMS data and to obtain valid results, the ANAO, in conjunction with Customs' Information Management Branch, undertook a quality assurance check of the data for a six-month period from 1 March to 31 August 2004. Sydney, Fremantle and Brisbane maintain local databases, which largely duplicate the data in the EXAMS system.<sup>38</sup> We requested data from these regional databases and, after adjusting the search parameters in the EXAMS system, compared both data sets. As the data provided did not match, we evaluated the differences between the two data sources and found this was particularly significant in relation to positive finds, which are discussed in paragraphs 4.21–4.29 of the *Intervention Processes* Chapter.

**1.29** The ANAO, in conjunction with Customs, decided that, with the exception of positive finds, the most accurate representation of CEF performance would be from EXAMS system data. This allowed us to include Melbourne in our analyses and provided some consistency across the regions.

#### Impact of the Integrated Cargo System

**1.30** In undertaking this audit, the ANAO recognises that some of the processes associated with selecting containers will change with the planned introduction of the Integrated Cargo System (ICS) in 2005. Any suggestions for improvement have taken these new arrangements into consideration.

**1.31** ICS is the information technology component of the Cargo Management Re-engineering (CMR) project. CMR will change the way industry reports the movement of cargo and involves a major review of Customs' practices, including the introduction of ICS and new legislation.<sup>39</sup> ICS will be a single electronic reporting system, replacing four existing transaction-processing systems.<sup>40</sup> The export phase of ICS was implemented in October 2004 and the import phase is scheduled for introduction in 2005.

**1.32** The audit was conducted in accordance with ANAO auditing standards, at a cost of \$260 000.

<sup>&</sup>lt;sup>37</sup> For example, the data excluded containers that had been through the CEF but were referred to other areas for further action such as Compliance Assurance.

<sup>&</sup>lt;sup>38</sup> Melbourne uses the EXAMS system and does not have a local database.

<sup>&</sup>lt;sup>39</sup> The Trade Modernisation Legislation, which was effective from 1 July 2002, introduces new compliance measures for reporting imported cargo.

<sup>&</sup>lt;sup>40</sup> These systems are the Export Integration system, Air Cargo Automation system, Sea Cargo Automation system and Customs Online Method of Preparing from Invoices Lodgeable Entries (COMPILE).

#### Acknowledgements

**1.33** The ANAO would like to express its appreciation to Customs' management and staff for their assistance in the conduct of this audit.

#### **Report structure**

**1.34** Figure 1.1 illustrates the framework used by the ANAO to assess the administrative effectiveness of the CEFs. This framework formed the basis for the structure of this report.

#### Figure 1.1

#### **Report structure**



# 2. Target Selection

This chapter reviews Customs' systems and processes for screening, risk assessing and targeting containerised sea cargo. The impact of the CEFs on target selection processes and the logistical coordination of targets are also discussed.

# Introduction

**2.1** Target selection is the day-to-day operation of screening cargo data for indicators of risk. The target selection process is complex and requires Target Selection Officers (TSOs) to use their judgement, based on the information and intelligence available, to determine whether cargo will be released or referred to the CEF for further examination. The TSO's ability to identify the risks associated with cargo reports generally comes from experience, an understanding of the sea cargo environment and up-to-date knowledge of trends. TSOs work within the Profiling & Alerts (P&A) area of the Risk Identification & Intelligence Branch (RI&I).

**2.2** The ANAO examined Customs' systems and processes for screening, risk assessing and targeting containerised sea cargo. We also reviewed the logistical coordination arrangements in place to ensure a consistent flow of containers to the CEFs.

# Cargo reporting and assessment

**2.3** As noted in Chapter One, sea cargo reports are to be submitted via the Sea Cargo Automation (SCA) system 48 hours prior to the vessel's arrival.<sup>41</sup> Currently, 95 per cent of cargo reports are received electronically. The importer or customs broker is also required to complete an entry for home consumption for any goods exceeding the value of \$250. This declaration must be lodged in Customs' commercial system, COMPILE.<sup>42</sup> Although this entry provides more detailed cargo information, it is not always available to the TSO as there is no timeframe in which the entry must be lodged.<sup>43</sup> Cargo reports are assessed by TSOs using a combination of risk indicators and system profiles.

#### **Risk indicators and system profiles**

**2.4** Risk indicators can be information such as the origin of the consignment, the port of loading or concealment potential of the cargo, which

<sup>&</sup>lt;sup>41</sup> Section 67A to 67E of the *Customs Act 1901*.

<sup>&</sup>lt;sup>42</sup> Customs Online Method of Preparing from Invoices Lodgeable Entries (COMPILE).

<sup>&</sup>lt;sup>43</sup> With the introduction of the Integrated Cargo System, industry will be legislatively required to report all cargo electronically and there will be mandatory cargo reporting timeframes.
alone, or in combination, suggests a consignment is high risk. Risk indicators are dynamic and are the basis for developing profiles in the SCA system. A profile is one or a cluster of risk indicators that, when grouped together, present the characteristics of a high-risk consignment. Customs groups SCA profiles into two categories: national and regional profiles.

**2.5** National profiles are consistent across all ports of entry and are specific to cargo from particular countries of origin, identified as being a potential risk. Regional profiles are created by regions based on research, intelligence or specific information from external sources, such as law enforcement agencies.<sup>44</sup> Another type of profile is an 'alert', which is entity specific, such as name and address details.

**2.6** The national and regional profiles within SCA have primarily been designed to address the Customs border protection function, particularly in relation to illicit drugs. As a consequence, unless specific compliance profiles have been developed for the SCA system, cargo reports within SCA are generally not being assessed from a compliance perspective. Export containers are also not routinely targeted by TSOs.

### **Risk profile queues**

**2.7** When Customs receives an electronic cargo report, the data is matched against the profiles in the SCA system. The profiling engine sorts and categorises the cargo reports into three electronic risk groups or queues: the profile;<sup>45</sup> venom;<sup>46</sup> and general<sup>47</sup> queues. There is also an amendments queue, which contains cargo reports that have been amended by the importer or customs broker.<sup>48</sup> An automatic hold is placed on cargo in the profile queue and it will not be released until the TSO clears the cargo. Cargo in the general, venom and amendments queues are automatically cleared for release after 24 hours, unless the TSO places a hold on this cargo. The risk queues are accessed by the TSO, on a priority basis. Customs also receives cargo reports manually. Because these reports have not been evaluated against the SCA profile engine, they are assessed by the P&A area. Figure 2.1 provides an overview of the sea cargo reporting and assessment process.

<sup>&</sup>lt;sup>44</sup> A regional profile may be cargo that has concealment potential originating from a high-risk country or the weight and size of a particular type of cargo.

<sup>&</sup>lt;sup>45</sup> The *profile* queue consists of national and regional profiles and alerts. SCA 'flags' when there is a match against a sea cargo report.

<sup>&</sup>lt;sup>46</sup> The *venom* queue captures information specifically related to new importers and may also be displayed in the *profile* queue.

<sup>&</sup>lt;sup>47</sup> The *general* queue consists of all cargo reports, including those in the *profile* and *venom* queues.

<sup>&</sup>lt;sup>48</sup> Amendments may be due to an error on the part of the importer or broker or in response to a request by Customs for further information.

## Figure 2.1



### Sea cargo reporting and assessment process

Source: ANAO analysis of Customs data

**2.8** The ANAO found that all regions attempt to screen all queues with priority being given to the profile queue. Our analysis of sea cargo reports (electronic and manual), received and screened by the regions for the period 1 July 2002 to 30 June 2004, shows that all regions have increased the number of manifest lines screened following the opening of the CEFs. Appendix 3 details the number of manifest lines received and screened by each region.

## Selecting targets for the CEFs

**2.9** Prior to the establishment of the CEFs, the regions only had the capacity to examine between two and four sea cargo containers each day. Target selection processes were designed to identify a limited number of high-risk targets in line with Customs' capacity to undertake examinations. The CEFs have significantly increased Customs' capacity to examine sea cargo containers. As a consequence, TSOs are now required to 'select' sufficient

containers to ensure that CEF inspection targets<sup>49</sup> are achieved while still maintaining the 'quality' of these selections.

**2.10** To determine whether sufficient containers were selected to enable the CEFs to meet their inspection targets, we reviewed the number of cargo reports (manifest lines) targeted for each CEF since it opened until 1 September 2004. Our analysis took into account the reduced number of inspections during each CEF's initial 'ramp-up' period and, the increase in targets from when each began Saturday operations.<sup>50</sup> We found, as outlined in Table 2.1, that none of the regions selected sufficient containers to enable the CEFs to meet their inspection targets, particularly Sydney and Fremantle.

### Table 2.1

Cargo	reports	targeted	for	each	CEF	from	opening	until
1 Septe	mber 2004	-						

Region	Melbourne <sup>(1)</sup>	Sydney <sup>(2)</sup>	Brisbane <sup>(3)</sup>	Fremantle <sup>(4)</sup>	Total
CEF inspection targets	42 975	35 875	20 840	9 140	108 830
Cargo reports (manifest lines) targeted	41 138	32 279	20 435	7 945	101 797
Selections as a percentage of inspection targets	95.7	90.0	98.1	86.9	93.5

Source: Australian Customs Service data

- Note 1: For period 27 November 2002 1 September 2004 (14-week ramp-up of 3 325 containers, 76 weeks @ 500 containers per week and 3 weeks @ 550 containers per week)
- Note 2: For period 7 March 2003 1 September 2004 (13-week ramp-up of 3 325 containers, 59.6 weeks @ 500 containers per week and 5 weeks @ 550 containers per week)
- Note 3: For period 31 March 2003 1 September 2004 (11-week ramp-up of 1 570 containers, 58.4 weeks @ 300 containers per week and 5 weeks @ 350 containers per week)
- Note 4: For period 18 November 2003 1 September 2004 (11-week ramp-up of 1 350 containers, 24.2 weeks @ 250 containers per week and 6 weeks @ 290 containers per week)

**2.11** The ANAO recognises that there may be a range of contributing factors for not meeting the inspection targets including resource constraints, the lack of analytical support provided to the TSOs, the relative experience of the TSOs and the ability of the CEFs to process the containers. The ANAO considers that

<sup>&</sup>lt;sup>49</sup> At the time of the audit, the daily inspection target (Monday to Friday) was 100 containers in Sydney and Melbourne, 60 containers in Brisbane and 50 containers in Fremantle. In July 2004, the Government announced the targets would increase to 100 containers in Melbourne, Sydney and Brisbane (Monday to Friday) plus 50 containers on Saturday, and 50 containers in Fremantle (Monday to Friday) plus 40 containers on Saturday.

<sup>&</sup>lt;sup>50</sup> Due to resources constraints, Brisbane is not yet operating at 550 containers per week. They are currently working Saturday and targeting a total of 350 per week.

this is an area that needs to be monitored closely by Customs, particularly as the CEFs' annual inspection targets have recently increased.

## Assigning a priority rating

**2.12** The TSO assigns a priority rating to cargo referred to the CEF and places a 'hold' on the cargo.<sup>51</sup> The cargo details are also entered into the EXAMS 1B system, which is the interface between P&A and the CEFs. This process is outlined in Figure 2.2

### Figure 2.2



### **Cargo Targeting Process**

Source: ANAO analysis of Customs data

<sup>&</sup>lt;sup>51</sup> The 'hold' in the SCA system notifies the Container Terminal Operator that the container is not to be released and is to be transported to the CEF.

### Priority rating system

**2.13** The cargo selected for the CEF is prioritised in accordance with the following priority rating system:

- Priority 1: x-ray and physical examination;
- Priority 2: x-ray with a view to physical examination;
- Priority 3: x-ray with a view to verifying commodities; and
- Priority 4: this category is to be used to adjust CEF workflow.

**2.14** The CEFs are required to physically examine all priority one selections regardless of the x-ray image presented. Priority two selections are unpacked in consultation with P&A staff if the image has no obvious concealment or anomaly. If no concealment is identified in a priority three or priority four selection, it is at the image analyst's discretion whether the container is unpacked. This system has been designed to take account of the limitations of container x-ray technology and to ensure that it is used as a tool for making detections rather than as a detector in itself.

**2.15** The ANAO found that, although all regions use this rating system, how the priority rating is assigned or reviewed varies. In New South Wales (NSW), a P&A supervisor reviews all priority one selections and, to ensure a consistent approach, periodically reviews all selections. In Victoria (VIC) and Western Australia (WA), tactical intelligence analysts assess all priority two and some priority three selections to determine whether the priority rating assigned is adequate or, following further research, should be changed. In Queensland (QLD), the TSO assigns the priority rating and the supervisor may review the rating if the TSO is inexperienced. The ANAO considers that, to ensure a consistent approach to the allocation of priority ratings, the P&A supervisor in each region should regularly review the ratings assigned by the TSOs.

**2.16** We were unable to determine the success rate of the examinations by the priority rating assigned because of the inconsistent manner in which the examination results have been recorded by the CEFs. The data integrity issues surrounding the EXAMS system are discussed in paragraphs 4.21–4.29 of the *Intervention Processes* Chapter.

### Intelligence support

**2.17** In reviewing its targeting strategies, VIC identified that the absence of tactical analysis of selections was a crucial factor in the lack of significant detections in the region. VIC now has tactical intelligence analysts to support

its TSOs.  $^{\scriptscriptstyle 52}$  WA and QLD drew on this experience and also employed a tactical analyst.

**2.18** These analysts undertake further research to identify other risk indicators and to rule out or confirm suspicion of the consignment. They have access to a wider range of intelligence databases and systems, which enables them to make more informed assessments. This analysis influences and often determines the priority rating assigned to the cargo report. It also means that additional information can be provided to the CEF to assist in its decision-making processes regarding examinations.

**2.19** NSW advised the ANAO that a lack of tactical intelligence support for its TSOs has been an impediment to providing quality targets. It intends employing a tactical analyst as soon as resources permit. We support this position, particularly as regions are being asked to select more containers.

**2.20** The ANAO found that Customs has effective systems and processes for risk assessing and targeting sea cargo consignments and these have been implemented across all regions. However, these processes will change with the introduction of the Integrated Cargo System (ICS) in 2005.

## The impact of the Integrated Cargo System

**2.21** ICS will replace existing cargo reporting systems and the current practice of manually screening cargo information will be eliminated.<sup>53</sup> TSOs will become match evaluators and work within specific workgroups. Match evaluators will only assess those cargo reports that match an alert or profile. This means that evaluators will be required to adopt a 'whole of Customs' approach to targeting. They will need to have a broader understanding of the sea and air cargo environments, compliance activity and the functions of the CEFs. The ANAO understands that modules addressing these individual elements will be included in the *Match Evaluator* training course.

## Training for target selection officers

**2.22** The ANAO was advised that the majority of TSOs have not completed the current *Target Selection Officer* course and require training in target selection techniques. A TSO course has not been conducted in NSW since 2001, and QLD and WA since 2002. A course was conducted in VIC in March 2004. The RI&I Professional Development section advised the ANAO that it could not conduct a TSO training course for several months. All available resources

<sup>&</sup>lt;sup>52</sup> Risk Identification and Intelligence (Victoria), *Project Forster: Victorian Targeting Strategies for the Container Examination Facility*, 11 July 2003, p. 14.

<sup>&</sup>lt;sup>53</sup> ICS is also discussed in paragraphs 3.27–3.29 of the *Target Development* Chapter.

are involved in developing and delivering the training packages associated with the introduction of the ICS.  $^{\rm 54}$ 

**2.23** The ANAO was also advised that TSOs do not always have a clear understanding of the limitations of container x-ray technology and cannot draw on this knowledge when assigning priorities to selected targets. In order to address this lack of knowledge, Border Technology in Central Office has created a container x-ray training package for TSOs. This one-day training course is designed to develop the relationship between the TSOs and CEF staff, familiarise the TSOs with CEF operations and provide TSOs with an understanding of container x-ray imaging. To date, the course has only been conducted in VIC. The ANAO considers the course should be presented in all regions.

## **Communication strategies**

**2.24** Communication between the TSOs, intelligence analysts and the CEF is of critical importance to developing profiles, achieving quality targets and in improving the success rate of the CEFs. The ANAO was advised that some CEF image analysts have been dissatisfied with the priority level assigned to selected cargo and the quality of the information provided by TSOs in relation to selections. Similarly, the TSOs consider that they do not receive adequate feedback on the outcomes of their selections.

**2.25** VIC identified the lack of feedback as an area of concern in its review of targeting strategies, noting that it can affect the TSOs' ability to judge the effectiveness of their targeting. Feedback allows TSOs to develop an understanding of the commodities that do or do not x-ray well. It results in better-informed decisions as to the level of priority and subsequent intervention required if images do not display a possible concealment or anomaly.

**2.26** The ANAO found that, in some regions, communication between the P&A group and CEF staff is very effective, with information and feedback openly exchanged. In other regions, communication between the work areas could be improved. A number of regions program regular meetings, while others address issues as they arise. The ANAO considers all regions should have regular meetings to provide a forum for raising issues and to facilitate regular feedback. Informal communication exchanges and visits between the two areas should also be encouraged.

**2.27** There is ongoing discussion and information sharing between P&A Central Office and regional managers. This has been particularly important in

<sup>&</sup>lt;sup>54</sup> The exports phase of ICS was implemented in October 2004 and the imports phase will be introduced in early 2005.

the development and testing of ICS, its practical application in the regions and ensures a consistent approach to target selection strategies and processes.

## Examination Data Management (EXAMS) system

**2.28** Customs initially developed the EXAMS 1A database to enable the TSOs to notify the CEF of the details of containers selected for examination. The database was restricted to individual regions. Users were unable to view selections in other regions and there was no reporting or analytical capability. The TSOs considered EXAMS 1A to be labour intensive, removing resources from targeting to data input. The EXAMS 1B system was released in October 2003.

**2.29** The EXAMS 1B system creates an examination record for targeted containers. Data entered into the system includes the container number, priority of and reason for selection, profile alert number (if available), and any information that may assist the CEF image analyst to decide whether or not to unpack the container. All regions advised the ANAO that inputting the required data into the EXAMS system is very time consuming.<sup>55</sup> In an effort to minimise the time taken for data entry, only the data required in mandatory fields is completed. As a consequence, the CEF is often being provided with limited information about selections. In the longer-term, this may impact on the quality of any analysis of the data contained in the EXAMS system (EXAMS 2) will reduce the data entry workload, as a number of the fields will be pre-populated.<sup>56</sup>

# Logistical coordination of targets

**2.30** The continuous operating environment at the wharves means that the logistical planning for CEF throughput needs to be at least 24 hours in advance, preferably 48 hours. Circumstances, which are often beyond Customs control, can impact on the logistical process of selecting and transporting containers to the CEFs. For example, a breakdown of key infrastructure, failure of key information systems and shipping patterns<sup>57</sup> can affect workflow.

**2.31** The Container Terminal Operators (CTOs) are contracted to provide container-handling services in each port. This means ensuring that selected containers are available for transportation to the CEFs. Under these contracts,

<sup>&</sup>lt;sup>55</sup> In QLD and VIC, EXAMS data is input by the TSOs, whereas NSW and WA have employed data processing officers to enter EXAMS records for priority two to four selections. TSOs are still required to enter priority one selections.

<sup>&</sup>lt;sup>56</sup> The release of EXAMS 2 will coincide with the introduction of the import phase of ICS.

<sup>&</sup>lt;sup>57</sup> For example, in WA, most cargo is available Monday, Tuesday and Friday.

they are required to develop a logistics plan in consultation with Customs and the transport services contractor. This planning process is intended to determine and document the coordination, activities and mechanisms necessary to control volume on a daily basis at the CEF. To date, no formal logistics plans have been developed. This issue is discussed in more detail in paragraph 5.40 of the *Facilities Operation* Chapter.

### **Target Selection Coordinator**

**2.32** The logistical coordination of selected containers is the responsibility of the Target Selection Coordinator (TSC) in each region and involves:

- ensuring a continuous flow of containers to the CEF;
- maintaining a sufficient number of selections to meet the CEF's daily throughput targets;
- monitoring target selection activity to ensure it is aligned with ship arrival dates and times;
- ensuring CTOs are notified of targeted containers in advance (ideally 24 hours) of vessel arrival; and
- liaison with CTOs to ensure selected cargo is available for transportation to the CEF and liaison with CEF officers on appropriate workflow and priority.

**2.33** The TSC and CEF supervisor work closely with the CTOs to organise a steady flow of containers to the CEF each day. This is achieved by constant communication and monitoring vessel arrivals, cargo availability and the number of selected containers in the EXAMS system. To manage the logistical process, NSW and VIC use the SCATHING database<sup>58</sup>, while QLD and WA prefer to use a spreadsheet. All regions update vessel arrival, cargo availability and 'selected' containers information several times a day, to advise staff on the number of selections made from a particular vessel and the number still required for the CEF to meet inspection targets.

**2.34** The TSC is also responsible for ensuring that selected containers are inspected, or if necessary, cancelled. All selected containers are monitored to ensure they have gone through the CEF, particularly those containers reaching their third day of availability, as the likelihood of importers incurring storage charges increases.<sup>59</sup>

<sup>&</sup>lt;sup>58</sup> SCATHING does not retain any historical data. Each time it is updated, the information is overwritten.

<sup>&</sup>lt;sup>59</sup> Storage charges apply 72 hours after the stevedores have declared cargo availability. Storage days are Monday to Saturday for all regions; Sundays are counted as a storage day if a container is not collected within six days of declared availability. For most regions, the entire vessel is not declared available until after the last container is off loaded.

**2.35** The role of the TSC is crucial to ensuring that the CEFs meet their inspection throughput targets. However, the responsibilities associated with the position are not clearly defined between the P&A group and the CEF and have been interpreted differently across the regions. For example, in some regions the TSC has full responsibility for logistics coordination, while in others this is shared with the CEF and transport service provider. There is no training or guidelines provided for this specialist position.

## Logistical coordination support system

**2.36** It would appear that Customs had little understanding of the complex and time-consuming nature of the logistical task. The Victorian TSC developed a database (SCATHING) to provide an electronic solution for managing the logistical coordination process. The volume of cargo being selected by VIC (and NSW) on a daily basis meant that it was not possible to manage this process manually.

**2.37** Customs' IT service provider does not support the SCATHING database. There is no documentation or corporate knowledge to allow any modifications to the database because the officer who developed it is on long-term sick leave. QLD and WA prefer not to use this database, mainly because they are smaller regions and it is not tailored to their requirements. The lack of support during system failures and the absence of user guidelines also contributed to this decision. VIC advised the ANAO that it is in the process of developing guidelines.

**2.38** Currently, the information in SCATHING is also available in the EXAMS 1B system (and EXAMS 2 when released). The ANAO was advised that, where additional information is needed, such as the expected cargo availability date, this data could be entered in a field created in a later version of EXAMS. The Corporate Research Environment (CRE) in Central Office could also develop report templates for the TSCs. For example, to monitor the number of containers selected, a report could be generated using the fields outlined in Figure 2.3 and a date range that encompasses vessel arrival and expected cargo availability dates. This report would also be useful for tracking outstanding containers.

### Figure 2.3

### Possible EXAMS system fields for generating CRE reports

			Expected Total		Status		
Port	Vessel	Arrival date	availability date	number of containers selected	In progress	Completed	Cancelled

Source: ANAO analysis of Customs data

**2.39** The ANAO considers that Customs should adopt a consistent national approach to logistical coordination and use the EXAMS system rather than the unsupported SCATHING database or spreadsheets used by WA and QLD.

## **Recommendation No.1**

**2.40** To more effectively manage logistical coordination, the ANAO recommends that Customs consider adopting a consistent national approach by:

- (a) assessing the feasibility of using the EXAMS system to monitor and track selected containers, including the reporting capability of the Corporate Research Environment;
- (b) clearly defining the roles and responsibilities associated with the target selection coordinator's position; and
- (c) providing appropriate training and developing procedural guidelines for this specialist position.

#### Customs response

2.41 Agreed.

# 3. Target Development

*This chapter discusses whether Customs' intelligence capability supports its target development processes and the importance of profile development and review.* 

# Introduction

**3.1** Customs defines target development as taking a large pool of potential targets<sup>60</sup>, and selecting primary and secondary targets for enforcement activity. Successful target development is based on thorough research and analysis and an understanding of the sea cargo environment. Analysts must also be aware of the nature of criminality and remain abreast of developments in the domestic and international criminal environment.<sup>61</sup>

**3.2** Target development and risk profiling are interdependent. Effective risk profiling requires high quality and current intelligence. This is provided through strategic, operational and tactical intelligence activity and the cooperation and information-sharing arrangements Customs has with other law enforcement agencies (LEAs). Risk profiling assists in identifying new targets and refining existing target development strategies. Figure 3.1 illustrates this concept.

### Figure 3.1



### Target development process

Source: ANAO analysis of Customs data

<sup>&</sup>lt;sup>60</sup> A target may be an individual, a company, organisation or group, a commodity, an occurrence or other activity that Customs or other law enforcements agencies seek to focus on.

<sup>&</sup>lt;sup>61</sup> National Profiles and Alerts Section Canberra, *Draft National Cargo Targeting Strategy 2004 and Beyond*, April 2004, p. 9.

**3.3** The ANAO assessed whether Customs' intelligence capability supports its target development processes. We also sought to determine how the Integrated Cargo System (ICS) would change existing risk profiling and targeting practices.

## **Customs' intelligence capability**

**3.4** Customs' Intelligence Philosophy sets out what intelligence is, for whom it is produced and why it is needed. The National Intelligence System (NIS) records intelligence reports and provides data storage, research and data manipulation capabilities. The Risk Identification & Intelligence (RI&I) Branch (in Central Office and the regions) is the focal point for Customs intelligence activity, including coordination and liaison with other LEAs.

### Law enforcement liaison

**3.5** In addition to having dedicated LEA liaison officers<sup>62</sup>, RI&I has operational intelligence analysts out-posted and seconded to work within joint agency or multi-agency investigation teams and task forces. Other LEA officers may also be seconded to Customs for specific operations. As well, the Australian Transaction Reports and Analysis Centre works closely with Customs and provides access to and training for its financial transactions database.

**3.6** The ANAO found that Customs has developed and implemented strategies and protocols for sharing information and intelligence with other LEAs. Nationally, and in each region, there are several joint agency committees and forums that hold regular meetings at management and working group levels. Regular inter-agency operational meetings and briefings are also held. The type of meetings, task forces and make-up of operational teams may vary across regions. However, the general purpose remains the same, that is, interagency information sharing, cooperation and liaison, strengthening Customs' intelligence capability and target development activities.

### Intelligence assessments

**3.7** The Assessment & Analysis (A&A) groups in Central Office and the regions produce strategic, operational and tactical intelligence assessments.

### Strategic intelligence

**3.8** Strategic intelligence assessments are produced primarily for the use of Customs' senior executives. These assessments provide an analysis of issues

<sup>&</sup>lt;sup>62</sup> In each region, liaison officers are appointed to work with the Australian Federal Police, the Australian Crime Commission, the relevant State Police Force and the Australian Transaction Reports and Analysis Centre.

that have national implications or are of national significance, usually in relation to Customs' border or revenue responsibilities. A strategic intelligence assessment addressing the impact of container x-ray on Customs and industry was completed by A&A (Central Office) in October 2002.

### Operational intelligence

**3.9** Operational intelligence assessments are generally prepared by the regions to inform and support target development and operational response activity. The ANAO found that, although the subjects may vary, all regions produce operational assessments. These assessments may address issues such as industry sectors, criminal groups, cargo importations from particular countries, and methods of concealment. Assessments may be undertaken jointly with other LEAs.

**3.10** In July 2003, VIC completed an intelligence assessment to review its target selection and development strategies. The review recommended: reviewing profiles for the CEF on a six-monthly basis; providing intelligence analysts to coordinate profile development and support TSOs; and developing a new priority rating methodology.<sup>63</sup>

**3.11** Prior to the establishment of its CEF, WA completed a systematic analysis of sea cargo containers being discharged into Fremantle. The project examined patterns and volumes of trade, commodities traded, major importers and suppliers and major importing countries. Imports data was provided in electronic format, allowing it to be used as both reference data for profile development and as a resource for further analysis. WA advised that completing the project was resource intensive but it did provide a comprehensive assessment of its sea cargo environment and was useful in developing and refining targets.

**3.12** The other CEF regions have not completed operational assessments of their sea cargo environments. Although we appreciate the resource implications of undertaking such an assessment, particularly in the larger ports, we consider there would be benefits for target development and selection processes in doing so. However, it may not be necessary to undertake the detailed analysis completed by WA to realise these benefits. We would also suggest that the work being undertaken by Central Office, such as the analysis of the top importing companies, form part of these assessments.

**3.13** The assessments would provide a sound basis for developing, reviewing and refining regional risk profiles and target development strategies for sea cargo discharging into these ports. This is particularly relevant, given the emphasis to be placed on profiles in ICS, which is discussed later in this

<sup>&</sup>lt;sup>63</sup> The priority rating system was adopted nationally.

chapter. It would also give intelligence analysts and TSOs a very good understanding of the sea cargo environment in which each region is operating and the risks facing Customs. This requires analysing industry to gain an appreciation of major trading countries and importers, trading patterns, volumes and commodities and operating practices. From a target selection perspective, this is important because quality targets must first be selected by the TSOs if the CEFs are to meet their inspection targets. To date, there have been insufficient containers selected across all regions.<sup>64</sup>

**3.14** The data collected should also be regularly reviewed to ensure that it remains relevant and current and, where practical, made available electronically so that it may be used as a reference source for developing risk profiles and further analysis. It may also be useful to analyse this data in conjunction with CEF examinations data to determine if patterns or trends exist in relation to cargo examination results. The information in these assessments would be a valuable component of the target selection officer and intelligence analyst training courses and allow the courses to be tailored to each region's own environment.

## **Recommendation No.2**

**3.15** To strengthen target development and target selection processes and to provide a better understanding of the sea cargo environment in which regions are operating, the ANAO recommends that the New South Wales, Victorian and Queensland regions:

- (a) complete an assessment of the sea cargo imports and exports discharging into their respective ports; and
- (b) regularly review and update this data so that it may be used as a reference source for developing risk profiles.

### Customs response

3.16 Agreed.

### Tactical intelligence

**3.17** Tactical intelligence relates to the activities, capabilities and intentions of specific suspect individuals and organisations. It can be initiated by information provided by other LEAs or developed by Customs' own analysts from a variety of information sources and is generally the basis for developing an 'alert' profile. Tactical intelligence is developed in all regions and is a crucial element in the process of risk assessing and targeting cargo importations.

<sup>&</sup>lt;sup>64</sup> Refer paragraph 2.10 and Table 2.1 of the *Target Selection* Chapter.

**3.18** The ANAO found that all regions effectively record, monitor and review the operational and tactical intelligence work they are undertaking. Weekly progress reports are provided to managers and relevant intelligence activity is recorded in NIS. Regional profiles and alerts in the SCA system<sup>65</sup> are based on operational and tactical intelligence activity.

## **Examinations data**

**3.19** The CEFs have allowed Customs to increase the volume of cargo examined. As a consequence, the information available in relation to sea cargo importations has also expanded. However, the ANAO was advised that this information has not been extensively used by A&A because of data integrity issues and difficulties in accessing, extracting and analysing the examination results data contained within the EXAMS system.<sup>66</sup> This has meant that considerable intelligence relating to CEF examinations and profile effectiveness has not been analysed or used as part of ongoing target development.

**3.20** The ANAO has been advised that this situation will improve considerably with additional functionality being provided in the next release of the EXAMS system. There is also an increased capacity for data analysis through the Corporate Research Environment in Central Office.<sup>67</sup> As well, data integrity is being addressed through the EXAMS Data Quality Assurance Project.<sup>68</sup>

# **Dissemination of intelligence and information**

**3.21** The ANAO also examined how Customs disseminates its intelligence material. Strategic intelligence products are widely distributed to the Executive, and all national and regional directors and managers. Operational and tactical intelligence is disseminated through various informal and formal channels such as NIS.<sup>69</sup> Central Office and the regions also provide intelligence updates, notices and briefing, which are widely disseminated to analysts and

<sup>&</sup>lt;sup>65</sup> As at July 2004, there were 282 NSW regional profiles, 288 Victorian regional profiles, 83 Western Australian regional profiles and 158 QLD regional profiles in the SCA system.

<sup>&</sup>lt;sup>66</sup> The EXAMS system is discussed in paragraphs 4.15–4.29 of the *Intervention Processes* Chapter and paragraphs 2.28–2.29 of the *Target Selection* Chapter.

<sup>&</sup>lt;sup>67</sup> The Corporate Research Environment has been established to provide Customs with an integrated analytical facility, supporting a wide variety of data sources and users.

<sup>&</sup>lt;sup>68</sup> The EXAMS Data Quality Assurance Project is discussed in paragraphs 4.31–4.33 of the *Intervention Processes* Chapter.

<sup>&</sup>lt;sup>69</sup> NIS is available to analysts, operational managers and Customs officers who have the necessary system access. There are a number of security access levels in NIS and access arrangements are controlled by RI&I.

TSOs. RI&I is looking at options to improve its cataloguing of intelligence material held by the Intelligence Research Unit.<sup>70</sup>

**3.22** The Enforcement Operations Coordination Unit advises the regions of any significant detection immediately following the seizure. This is followed by a Significant Event Analysis report, prepared by the analyst involved, outlining details of the information and intelligence supporting the detection. Such information is very important for profile and target development.

**3.23** The ANAO found that A&A groups in all regions have regular meetings to discuss projects and provide briefings. In most regions, intelligence analysts are generally co-located with TSOs. Working in close proximity encourages communication and information sharing between the two groups. However, in some regions, there is limited communication between A&A analysts and the CEF staff. We consider regular communication should be encouraged as it would:

- engender a greater awareness of the capabilities of container x-ray technology;
- provide the opportunity to brief CEF staff on current projects and profiling activity; and
- facilitate feedback on examination outcomes.

**3.24** The ANAO found that communication across regions could be improved, particularly as there is little awareness of the work being undertaken by other regions. This lack of communication could result in duplication of effort and prevent a wider benefit for some operations or projects. The ANAO was advised that an A&A managers network, involving all regions, has recently been established to raise and discuss intelligence issues and target development strategies. This would be the ideal forum to exchange details of the work being carried out by each region and develop opportunities for leveraging off each other's work. The wider dissemination of project reports and operational assessments to other regions would also encourage information sharing.

**3.25** A&A Central Office indicated that it would like to strengthen existing communication and information sharing arrangements within and between regions. Strategies such as having regular meetings between analysts and undertaking joint projects are being put in place to achieve this.

**3.26** Overall, the ANAO considers that Customs' intelligence framework is comprehensive, well structured and generally well implemented, although

<sup>&</sup>lt;sup>70</sup> The Intelligence Research Unit receives intelligence material and publications from domestic and international law enforcement agencies and other Customs agencies. This material is forwarded to the regions for dissemination.

more effective communication strategies could be adopted in some regions. Customs' intelligence capability effectively supports its target development and risk profiling activities. This is particularly important because ICS places considerable emphasis on national and regional profiles.

# Impact of the Integrated Cargo System

**3.27** As previously noted, ICS is the information technology component of the Cargo Management Re-engineering (CMR) project. ICS is a single electronic reporting system with profiling functionality being provided by the Cargo Risk Assessment (CRA) system. This means that, when cargo information is reported to Customs and validated, the information will be risk assessed by the CRA system. CRA is a fully integrated system that removes the need for duplication across different profiling systems. It has two main components:

- the profiling component-*Alert/Profile Maintenance*; and
- the post-match component–*Work Management*.

**3.28** The CRA system will identify potentially high-risk cargo and determine a course of action. Cargo will either be released or referred to a workgroup for assessment. CRA will eliminate the current practice of manually screening cargo information. Within ICS/CRA, evaluators, who will be part of specific CRA workgroups, will only need to respond to cargo that has matched an alert or profile.

**3.29** The CRA system places significant emphasis on the creation, maintenance and evaluation of national and regional profiles. The system also includes mandatory testing of alerts and profiles to ensure correct logic and an extensive reporting facility for CRA information. Risk profiles currently in existing systems will be migrated to CRA.<sup>71</sup> RI&I will be responsible for the overarching administration of CRA alerts and profiles with Central Office taking responsibility for national profiles and the regions reviewing and inputting regional profiles.

# **Review of national and regional profiles**

**3.30** One of the key aspects of the transition to ICS is the requirement to ensure that profiles within existing cargo systems are relevant and effective. A system profile review was undertaken by Customs between February 2003 and March 2004 to identify profiling gaps and duplication within existing profiles, and to ensure a smooth transition of profiles into ICS.

<sup>&</sup>lt;sup>71</sup> The procedures to effectively transition active import and export profiles have been set out in the CRA transition plan.

**3.31** The review highlighted the disparate methods employed in managing profiles across systems. It reinforced the need to regularly evaluate all profiles, whether national or regional, regulatory or risk driven. Currently, it is difficult to measure profile effectiveness, as it is only possible to measure the number of profile matches. 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.

**3.32** 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 (SOP). This is to be developed by P&A Central Office (in conjunction with P&A regional managers) and will form part of a suite of SOPs outlining targeting and selection processes under ICS.

## National country of origin profiles

**3.33** The review team evaluating the national country of origin profiles currently in the SCA system recommended further examination of national origin profiles, giving careful consideration to issues such as:

- the lack of NIS references as foundations for the profiles;
- the age of the profiles (many were created in 1999);
- some profiles have regional matching criteria, and others have national matching criteria;
- some origin profiles that the review team still considered to be high risk had been deactivated; and
- some origins that were not subject to profile had emerged as high-risk.

**3.34** In assessing potential targets, the first concern is the originating country and transhipment country. The country of origin profile is the most commonly quoted reason for selecting targets (51 per cent according to EXAMS in 2003), but has the lowest success rate. However, there has been no evaluation or review of the high-risk country list for some time. Countries not on this list are no longer necessarily a lower risk.<sup>72</sup>

**3.35** Customs recognises the limitations of its current approach to country of origin profiling and is considering alternative approaches to risk-rating and targeting countries of origin. For example, goods from some countries are not checked at all by these profiles although they may constitute as much risk as countries subject to origin profiles. Also, high-risk countries are all treated similarly, even though their risks are unique. For example, the risk increases if

<sup>&</sup>lt;sup>72</sup> National Profiles and Alerts Section Canberra, *Draft National Cargo Targeting Strategy 2004 and Beyond*, April 2004, p. 13.

they are a known transhipment country. As a consequence, quality targets are not always being detected and insufficient attention is being paid to potentially important targets.

**3.36** Data from the EXAMS system was analysed in March 2004 to attempt to determine the true risk rating of each country. Although this approach was not completely satisfactory because of the integrity and accuracy of the early recorded data, the data analysis suggested areas for further research.<sup>73</sup>

**3.37** Customs' draft National Cargo Targeting Strategy has recommended that an expert panel review this data and other evidence and re-evaluate the true risk ratings for all major countries. The strategy also suggests that consideration be given to revising the weighting applied to country risks and a process developed to regularly review this risk rating set. The ANAO fully supports these recommendations. However, to date this panel has not been convened or a review initiated.

**3.38** The ANAO recognises that Customs has put considerable effort into ensuring that the regional and national profiles to be migrated into CRA are relevant and current. We also acknowledge the continuing work that is being undertaken by P&A Central Office and regional P&A managers in the development and testing of CRA/ICS. However, given the importance of profiles to ICS, the emphasis that is given to the country of origin profile and the increased number of selections required to meet CEF inspection targets, the ANAO considers that the risk profiles of origin countries should be reviewed as soon as possible.

# **Recommendation No.3**

**3.39** To strengthen high-risk country identification and target selection practices, the ANAO recommends that Customs review the risk profiles of cargo origin countries and, as part of this review:

- (a) re-evaluate the risk ratings for all major countries;
- (b) revise the weighting applied to country risks; and
- (c) develop a process to regularly review this risk rating set.

## Customs response

3.40 Agreed.

<sup>&</sup>lt;sup>73</sup> National Profiles and Alerts Section Canberra, Draft National Cargo Targeting Strategy 2004 and Beyond, April 2004, p. 15.

# 4. Intervention Processes

This chapter examines the CEFs' inspection and physical examination processes. The recording and reporting of these processes, including the data integrity issues surrounding the EXAMS system are discussed. We also reviewed how Customs assesses and reports the effectiveness of the CEFs.

# Introduction

**4.1** The establishment of the CEFs has enabled Customs to significantly increase its intervention capability.<sup>74</sup> As previously advised, the Government has increased funding to allow the CEFs to inspect 100 880 containers annually and physically examine 10 per cent of these containers.<sup>75</sup> The ANAO reviewed the CEFs' inspection and physical examination processes and how the results of these processes are recorded and reported. We also sought to determine how the effectiveness of the CEFs is assessed and reported within Customs' Outcome and Outputs framework.

**4.2** As noted in Chapter One<sup>76</sup>, all regions use the EXAMS system and it was agreed with Customs that this data would most accurately reflect the number of containers selected, inspected and physically examined. The data analysis in this chapter also covers the differences between EXAMS data and the local databases used by all CEFs except Melbourne. Appendices 4 to 7 outline the ANAO's analysis for each CEF.

# X-ray inspection process

**4.3** The transport service provider is responsible for transporting the containers to and from the CEF.<sup>77</sup> The x-ray system scans the containers and, once completed, the image is sent to an Image Processing Station (IPS). The image analyst (IA) determines what action is required based on the image, priority rating assigned and information provided by the TSO. If necessary, the IA can access the cargo report and the customs entry if it has been lodged.<sup>78</sup> If

<sup>&</sup>lt;sup>74</sup> Prior to the establishment of the CEFs, Customs examined approximately 11 000 containers.

<sup>&</sup>lt;sup>75</sup> This target was based on international experience and the use of other x-ray technology. It was believed that approximately 10 per cent of containers would need to be physically examined and resourcing of the CEFs was planned accordingly.

<sup>&</sup>lt;sup>76</sup> Refer paragraphs 1.26–1.29 of the *Background and Context* Chapter.

<sup>&</sup>lt;sup>77</sup> Containers are provided in the following priority order: hazardous goods, exports, refrigerated containers and then remaining containers starting with the oldest first.

<sup>&</sup>lt;sup>78</sup> The customs entry is lodged in the COMPILE system, Customs' commercial electronic clearance and reporting system for imports. The COMPILE entry may not have been lodged when the container arrives at the CEF.

no physical examination is required, the container is returned to the terminal and the cargo is released. The action taken by the IA is recorded in the EXAMS system and local CEF database if available. Figures 4.1 and 4.2 (opposite page) illustrate these processes.

**4.4** All priority one containers, and those containers where an anomaly has been found, are to be physically examined. The EXAMS record, including details of the anomaly, and a copy of the image are attached to the container. If Customs considers the container presents a quarantine risk, it notifies the Australian Quarantine Inspection Services (AQIS).<sup>79</sup> If necessary, the container can be moved under bond for any further AQIS action that may be required and then returned to the CEF for examination.

# **Physical examination process**

**4.5** The CEFs are required to physically examine 10 per cent of the containers selected for inspection.<sup>80</sup> Most of these examinations will be priority one containers. All containers are tested for fumigants before being opened for examination. A physical examination can involve:

- full unpack, where all cargo is removed from the container for further examination;
- partial unpack, where some but not all cargo is removed from the container for further examination;
- tailgate, where the container is opened and inspected without unpacking; or
- tunnel unpack, where the container is unpacked to the point identified by the x-ray image as being inconsistent.

**4.6** If a detection is made and/or goods seized, the case will be referred to the relevant authority or Customs' area for further action. For example, this will be the Australian Federal Police for illicit drugs, Customs' Investigations Branch for alcohol, tobacco or other prohibited items, and the Compliance Assurance Teams for compliance-related issues.<sup>81</sup> Depending on the circumstances, the container may or may not be returned to the terminal. If there is no positive find, the container is repacked and the necessary documentation is completed. The hold in the SCA system is lifted and the container is returned to the terminal.

<sup>&</sup>lt;sup>79</sup> AQIS has office accommodation at each CEF.

<sup>&</sup>lt;sup>80</sup> Customs uses contract unpack and repack labour for physical examinations.

<sup>&</sup>lt;sup>81</sup> Examples of compliance-related issues include misdescribed or misreported goods, undervalued goods, breaches of intellectual property rights and trademark infringements.

## Figure 4.1 Container x-ray inspection



Source: Australian Customs Service

## Figure 4.2 Image Processing Station



Source: Australian Customs Service

ANAO Audit Report No.16 2004–05 Container Examination Facilities **4.7** The ANAO found that Customs has well defined and documented processes for inspecting and physically examining containers. These processes are understood by all CEF staff and contractors and have been implemented by all regions. The inspection and examination processes are outlined in Figure 4.3.

## Figure 4.3

### Inspection and examination processes



Source: ANAO analysis of Customs data

## Number of physical examinations

**4.8** The ANAO sought to determine if each CEF had physically examined 10 per cent of inspected containers. Our analysis, outlined in Table 4.1, indicates that none of the regions achieved this target for the period from opening until 1 September 2004.

### Table 4.1

# Containers physically examined by each CEF from when it opened until 1 September 2004

	Melbourne	Sydney	Brisbane	Fremantle
Number of containers inspected	39 858	31 688	19 377	7 425
Number of physical examinations completed	3 511	2 203	1 746	655
Physical examinations as a percentage of inspections	8.81	6.95	9.01	8.82

Source: ANAO analysis of Customs EXAMS 1B data

### Physical examinations by priority rating

**4.9** As all priority one containers require a full physical examination, we also analysed the EXAMS data by priority rating for the same period. We found, as illustrated in Figure 4.4, that none of the regions examined all priority one containers. In particular, Brisbane and Melbourne examined around 60 per cent and 72 per cent, respectively. (Refer Appendices 6 and 4).

#### Figure 4.4

# Percentage of physical examinations by priority rating for each CEF from opening until 1 September 2004



Source: ANAO analysis of Customs data

**4.10** The CEFs advised that there could be a number of reasons why priority one containers were not examined. These included the examination bays being full with other high priority examinations; limited examination staff resources; or the x-ray image was clear and there was little likelihood of concealment. The CEFs advised that the TSOs are always consulted before a decision is made not to examine a priority one container.

**4.11** The ANAO suggests that Customs regularly monitor the physical examination of priority one containers to ensure that they are being completed. We also consider that the target of physically examining 10 per cent of containers inspected should be regularly reviewed to ensure its continued relevance.

**4.12** This analysis may also reflect examinations being incorrectly recorded in the EXAMS system. The CEFs advised that data input errors generally relate to the treatment of Less than Container Load (LCL) cargo<sup>82</sup> and the workgroup that is selected in the EXAMS system by individual officers. For example, if the examination is entered under the wrong workgroup, it will affect the retrieval and analysis of the EXAMS record(s).

# **Recording inspections and examinations**

**4.13** The EXAMS record provides the history of each container selected for inspection and examination. The information recorded includes the reason for selecting the cargo, the priority rating assigned and the results of the x-ray inspection and physical examination. The system relies on each person in the process (the TSO, IA, examination officer, or other parties to whom the record may be referred for further action) completing his or her part of the record properly.

**4.14** All regions raised concerns regarding EXAMS data entry requirements, the difficulties associated with accessing, extracting and analysing examinations results data and the integrity of the data.<sup>83</sup> To overcome the perceived inadequacies of this system, Sydney, Brisbane and Fremantle CEFs developed local databases to record examination information, throughput statistics and container turnaround times.

**4.15** As previously noted, the ANAO compared EXAMS data generated through the Corporate Research Environment (CRE)<sup>84</sup> in Central Office with

<sup>&</sup>lt;sup>82</sup> Containerised sea cargo is categorised as either a Full Container Load (FCL), when the entire contents of the container represent a transaction between one consignee and one consignor or Less than Container Load (LCL), when several unrelated consignments are consolidated into one container.

<sup>&</sup>lt;sup>83</sup> The EXAMS system is also discussed in paragraphs 2.28–2.29 of the *Target Selection* Chapter and paragraphs 3.19–3.20 of the *Target Development* Chapter.

<sup>&</sup>lt;sup>84</sup> The CRE has been established to provide Customs with an integrated analytical facility, supporting a wide variety of data sources and users.

EXAMS reports generated by the regions for the period 1 March 2004 to 31 August 2004. Prior to generating its reports, the CRE had discussions with each region to determine and understand the methods by which data is recorded in the EXAMS system. This enabled the CRE to establish search parameters that would achieve reasonably accurate results. Regional data was also sourced from the EXAMS system. The ANAO was unable to reconcile these data sets and Table 4.2 outlines the differences for the number of containers selected.

### Table 4.2

# Comparison of data from the EXAMS system for the period 1 March 2004 to 31 August 2004

	Melbourne	Sydney	Brisbane	Fremantle
Containers selected (regional EXAMS reports)	15 031	13 242	8 361	6 302
Containers selected (CRE EXAMS reports)	13 460	12 658	8 191	6 304
Difference	1 571	584	170	2

Source: ANAO analysis of Customs data

**4.16** Our analysis and subsequent discussions with the regions, has demonstrated that there are no clear search parameters or common system business rules that the regions can use to generate CEF reports. It has also highlighted that there are no reports in CRE that are specific to the CEFs. The CRE advised that reports generated in the regions could include non-CEF tasks and reflect the EXAMS workgroup and filtering parameters used in constructing the report query. We found that these varied across regions.

**4.17** The ANAO considers that, to enable the accurate reporting of inspections and examinations carried out by the CEFs, there is a need for standardised reports that include common business rules and parameters. This could be achieved if the CRE developed common report templates to be used by the CEFs. The regions would then no longer need to provide weekly/monthly reports to Central Office because national reports could also be generated by the CRE. The disparity between the data sets also highlights the need to emphasise to officers the importance of recording examination results correctly in the EXAMS system.

## **Recommendation No.4**

**4.18** To enable accurate reporting of the inspections and examinations carried out by the Container Examination Facilities (CEFs) using EXAMS system data, the ANAO recommends that Customs develop:

- (a) common system business rules and reporting parameters for the EXAMS system; and
- (b) standardised report templates in the Corporate Research Environment that are specific to the CEFs.

Customs response

4.19 Agreed.

### Inspections and physical examinations data

**4.20** We also compared inspections and physical examinations data from the EXAMS system with each region's local database for the same six-month period. We found that there were considerable differences between the data sets for Brisbane and Fremantle whereas the differences for Sydney were negligible. Table 4.3 outlines these differences.

### Table 4.3

Comparison of data from the EXAMS system and local databases for the period 1 March 2004 to 31 August 2004

	Sydney	Brisbane	Fremantle
X-ray inspections (local database)	12 317	7 610	6 050
x-ray inspections (EXAMS)	12 316	7 490	5 896
Difference	1	120	154
Physical examinations (local database)	842	747	448
Physical examinations (EXAMS)	841	710	473
Difference	1	37	25

Source: ANAO analysis of Customs data

## Positive finds data

**4.21** The ANAO could not validate the EXAMS data for 'positive finds' with the regional databases. Some of the differences between these data sets, which only included FCL cargo were:

• a comparison between a small number of Fremantle's positive finds and the EXAMS system found that nine entries had not been recorded

in the EXAMS system. Individual entries for the other regions were not checked.

- Fremantle advised that there had been 44 positive finds for the six-month period. The EXAMS system recorded 4 finds.
- EXAMS recorded 42 positive finds for Sydney during the six-month period whereas the CEF advised that there had been 106 finds for the same period.

**4.22** As Sydney has kept a register of all finds since they began operations, we also compared this register with EXAMS data and found that the CEF recorded 237 positive finds since opening until 1 September 2004. For the same period, EXAMS recorded 85 positive finds.

**4.23** We have been advised that there could be several reasons for these differences including:

- EXAMS will only assign a positive find to the area that completes the record. For example, if the CEF refers the cargo to another area within Customs for further action, the EXAMS record is also transferred to that area rather than being recorded as a find for the CEF;
- officers in all regions are inconsistently recording finds;
- there can be a duplication of finds. For example, an officer could enter multiple finds for each item in the one consignment or one find of several items.

We found when reviewing the 'positive finds' data provided by the regions that it was often difficult to determine whether a positive find that included more than one item or referral had been recorded as a single or multiple find.

**4.24** To determine a reasonably accurate representation of the number of positive finds, each region provided the ANAO with a spreadsheet giving a description of the find and/or referral.<sup>85</sup> For Melbourne and Sydney this data was available from when the CEF opened until 1 September 2004. For Brisbane and Fremantle the data was only available from when their databases became operational. In Brisbane's case this was 1 September 2003 and Fremantle was 9 February 2004. As the finds were not assigned to specific categories on the spreadsheets, we have grouped them under common headings that are closely aligned to EXAMS categories. The finds for each region include both FCL and LCL consignments and are outlined in Table 4.4.<sup>86</sup>

<sup>&</sup>lt;sup>85</sup> These spreadsheets do not separate the finds by priority rating; they provide the date and job number, a description of the find and the action taken.

<sup>&</sup>lt;sup>86</sup> The numbers may vary slightly where it has been difficult to determine whether it is a single or multiple find.

### Table 4.4

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	Melbourne <sup>(1)</sup>	Sydney <sup>(2)</sup>	Brisbane <sup>(3)</sup>	Fremantle <sup>(4)</sup>
Compliance	104	220	97	62
Quarantine	53	44	27	11
Prohibited Items	30	13	16	7
Drugs	7	12	1	1
Total Positive Finds	194	289	141	81

Source: Australian Customs Service data

Note 1: For period 27 November 2002–1 September 2004

Note 2: For period 7 March 2003-1 September 2004

Note 3: For period 1 September 2003–1 September 2004

Note 4: For period 9 February 2004–1 September 2004

## **Positive finds**

**4.25** Our analysis has highlighted that there are inconsistencies in how a positive find is being recorded. As a consequence, incorrect and inaccurate data is being recorded in the EXAMS system. For example, the regions consider all referrals to other areas to be positive finds, regardless of whether there is a positive or negative outcome or the record has been completed. The EXAMS system only records a find when the outcome is positive and the record has been completed by the CEF or relevant area.

**4.26** In reviewing the finds provided by the regions, it was evident that the majority of finds are referrals to other areas, which are responsible for completing the EXAMS record. However, these records are not always being completed. In late August 2004, an analysis of the EXAMS system showed that approximately 5 000 records had not been completed. Since this issue was highlighted, the Information Management Branch has been completing and closing approximately 1 000 of these records per week.<sup>87</sup>

**4.27** Categorising positive finds in the EXAMS system is also problematic. Currently, all positive finds/referrals for compliance must be recorded under 'revenue' unless they relate to intellectual property. Weapon finds could be recorded under either 'firearm', 'other weapons' or 'prohibited items'. The ANAO was advised that there are no guidelines on how categories are to be selected. It is determined by the individual officer based on how the region has chosen to interpret the EXAMS categories.

<sup>&</sup>lt;sup>87</sup> The ANAO was advised that the officers closing the records are ensuring that all information is recorded in EXAMS and, where information is missing, the record is forwarded to the relevant area to finalise.

**4.28** The current situation means that Customs has significant data integrity problems in this area and is unable to accurately assess or report the performance of the CEFs. If inspection and examination information is to be captured correctly and consistently across regions, Customs needs to develop guidelines that clearly articulate:

- what constitutes a positive find, including when the cargo is referred to another area for further action;
- how positive finds are to be recorded in the EXAMS system, particularly when referred to another area and the final outcome is a negative find;
- how multiple finds/referrals in the one consignment are to be recorded in the EXAMS system;
- how positive finds will be treated by the EXAMS system, particularly when generating reports; and
- who is responsible for completing the records.

# **Recommendation No.5**

**4.29** To capture inspection and examination data accurately and consistently, the ANAO recommends that Customs develop and implement guidelines that clearly articulate:

- what constitutes a positive find at the Container Examination Facility (CEF), including when the cargo is referred to another area;
- how the find is to be recorded by the CEF in the EXAMS system;
- how this information will be treated by the EXAMS system; and
- who is responsible for completing the EXAMS record.

Customs response

4.30 Agreed.

## EXAMS data quality assurance

**4.31** Customs acknowledges that, currently, there is no formal process whereby the whole examination record is checked for quality, nor has this responsibility been assigned to a particular position(s). To improve EXAMS data integrity, Customs is initiating a national EXAMS data quality assurance strategy.

**4.32** The proposed strategy involves a two-step process. The first step requires the officer completing/closing the EXAMS record to ensure all details are in accordance with what was actually observed and, if necessary,

amending the record. The second step proposes system-wide quality assurance checks. Officers will conduct ongoing compliance checks and provide periodic reports on data quality issues to the Client Data Management System User Support Group for dissemination to the regions. The region will be required to address the issue(s) within two weeks and report back that the activity has been completed.

**4.33** The EXAMS system's reporting capability has recently been enhanced through the CRE in Central Office. The ANAO has also been advised that the next system release (EXAMS 2) will include additional recording, searching and reporting capabilities. These enhancements, in conjunction with the data quality assurance strategy, should considerably improve the EXAMS system's capability and its capacity to meet users requirements. The ANAO considers that all regions should focus on ensuring that complete and accurate data is being recorded in the EXAMS system. An effective national reporting system will ensure consistency across regions and provide the capability to compare results from a national perspective. Using the EXAMS system would also eliminate the need to have three local databases duplicating this information.

# Incorporating compliance activity in the CEFs

**4.34** To utilise the capacity of the CEFs to examine cargo from a compliance perspective, Customs introduced a Declaration Validation Examination (DVE) process in August 2003. There have been delays in implementing this process mainly because staff at the CEF were not adequately trained to undertake compliance activities and there are issues relating to when the customs entry is lodged.<sup>88</sup>

**4.35** Sydney is the only CEF where compliance officers have routinely assessed the cargo for compliance purposes, recorded the results of their inspections in a compliance database and reported monthly to Central Office. The ANAO was advised that, although compliance checks were being undertaken in the other CEFs, they were not consistent across regions. Reporting is through each region's Compliance Branch, making it difficult to determine individually or nationally the compliance activity being undertaken by the CEFs. Customs advised that it is currently drafting DVE procedures to be implemented at all CEFs.

## **DVE process**

**4.36** The purpose of the DVE process is to validate the information provided in the sea cargo report and, if available, the customs entry. CEF officers will be required, as part of standard examination procedures for all containers

<sup>&</sup>lt;sup>88</sup> The customs entry may not have been lodged when the container arrives at the CEF.

unpacked, to undertake specific compliance checks. Discrepancies found during these initial checks are to be verified during examination of the cargo. If these discrepancies cannot be resolved at the CEF, the consignment will be referred to the relevant Compliance Assurance Team. Generally, the container will be returned to the terminal, with any further action being initiated by Compliance Assurance.

**4.37** The details of all declaration checks are to be recorded in a CEF compliance database and reported to Central Office. We were advised that the EXAMS system is unable to accept this data until EXAMS 2 is released in 2005. The ANAO considers that the DVE process will not be fully implemented into the CEFs until the procedures have been completed and disseminated and all CEFs have developed a compliance database to record results.

## Monitoring and reporting performance outcomes

**4.38** Performance monitoring and reporting is undertaken within Customs' Outcome and Outputs framework<sup>89</sup>, which is outlined in Appendix 8. Outputs One and Four are relevant to the CEFs.

**4.39** Performance measures for Output One include the weight and number of drug seizures by mode of importation. The CEFs' detections are included in the aggregated seizures for air and sea cargo and international post. The detections and/or seizures of other prohibited imports are also aggregated.<sup>90</sup> This performance information does not reflect the number of detections and/or seizures made by the CEFs. Output Four reports the number of fraud/evasion cases adopted for investigation and the number adopted for prosecution. Again, this information cannot be separated to represent the number of cases adopted as a result of CEF operations.

**4.40** Performance information should enable Customs to assess the effectiveness and impact of its container x-ray strategy. It should also allow managers to monitor progress, prioritise direction and resources, give feedback to staff and provide assurance to Government that stated objectives are being achieved. The current performance measures do not enable Customs to assess the operational effectiveness of the CEFs.

<sup>&</sup>lt;sup>89</sup> This framework outlines how the work of Government is measured and/or assessed (through the application of accrual-based budgeting and reporting), and what is measured (through specifying outcomes, administered items and outputs). Relevant performance information must be identified for outcomes, outputs and administered items.

<sup>&</sup>lt;sup>90</sup> Detections/seizures of other prohibited imports are grouped under quarantine, restricted goods, wildlife and revenue.

## CEF performance data

**4.41** The CEFs record information relating to positive finds. A weekly status report is also sent to Central Office outlining: the container throughput achieved; the number of containers physically examined; the average container turnaround time for inspections and physical examinations; and a description of any detections. However, this information is not reported in either Output One or Four.

**4.42** The ANAO considers that performance information is most effective if current performance can be compared against specific targets, benchmarks or activity levels.<sup>91</sup> Customs is funded for an agreed inspection target and aims to physically examine 10 per cent of these containers. Achievement against these targets should be included in performance reporting.

**4.43** The ANAO recognises that Customs cannot determine the effectiveness or efficiency of the CEF solely by the number of containers it has inspected and examined. Additional measures could, for example, include the average turnaround time of containers compared within and across regions for particular time periods.<sup>92</sup> This would enable Customs to identify any inefficiency at the CEFs, and the reasons for it. Targets could be developed for turnaround times.

**4.44** Customs could also compare trends in activities across time periods. For example, CEF funding has recently been increased to support an increase in inspection targets. Time series analysis of the inspections and examinations across a number of years would indicate whether increases in funding have in fact increased CEF throughput and could be used when assessing the adequacy of the inspection targets.

## Customs' Corporate Performance Measurement Framework Project

**4.45** In December 2003, Customs commenced a Performance Measurement Project. This project is designed to improve Customs performance measurement reporting arrangements to ensure they are accurate, correct and justifiable; and to better align planning processes with the development of performance measures. Customs is currently reviewing performance measures across its outputs, ensuring key aspects of performance are covered. For example, introducing quality, quantity, cost and timeliness categories. The ANAO considers that the performance measures relating to the CEFs should be reviewed as part of this project.

<sup>&</sup>lt;sup>91</sup> Australian National Audit Office, Better Practice Guide, *Better Practice in Annual Performance Reporting*, April 2004, p. 50.

<sup>&</sup>lt;sup>92</sup> Different time periods should be used to compare within regions, whereas comparisons across regions should be done using the same time period.

## **Recommendation No.6**

**4.46** To enable the operational effectiveness of the Container Examination Facilities (CEFs) to be assessed and reported on, the ANAO recommends that Customs:

- (a) develop performance measures and targets specific to the CEFs; and
- (b) include these measures in Customs' Outcome/Outputs framework performance information.

Customs response

4.47 Agreed.

## Training of CEF staff

**4.48** The ANAO found that Customs has implemented technical training requirements and competencies for CEF positions. Staff must achieve these before they can undertake particular tasks such as the use of x-ray technologies and breathing apparatus. Customs has adopted the Competency Assessment Training Officer (CATO) System.<sup>93</sup> Container x-ray technology CATO officers in each region deliver initial training to IAs and conduct ongoing assessments. The CATOs exchange images and information through a shared electronic mailbox and are responsible for passing information to the IAs.

**4.49** All images are stored in the x-ray system's mass storage facility. However, IAs do not have the necessary access and cannot, as part of their routine assessment of the x-ray image, compare cargo that has been legitimately imported, with cargo under suspicion, or review previous methods of concealment. Customs advised that it is currently developing an image library but was unable to say when it will be available.

### **Image library**

**4.50** The image library will be maintained by Central Office and contain approximately 100 images of CEF detections and typical cargo. Each image will have relevant documentation such as the cargo report and the EXAMS record attached. Initially, the images will only be accessed by the CATOs and will be used as a training and assessment tool.<sup>94</sup>

**4.51** The ANAO considers this library will be very useful in training and assessing IAs. We suggest the images from the library also be used as training

<sup>&</sup>lt;sup>93</sup> CATO officers are selected primarily on their technical knowledge and ability and must be recertified every 12 months.

<sup>&</sup>lt;sup>94</sup> The library will be loaded onto the CATOs' laptop computers as an 'off-line' IPS. The Brisbane CEF has a third IPS that can be used for this purpose.

material for intelligence analysts and TSOs. This will allow a better understanding of the limitations of container x-ray technology, and provide contextual information that could be useful when developing profiles and assigning priority ratings.

**4.52** The image library is not designed as a 'reference' library that would be available on-line to IAs although the ANAO was advised that, technically, it should be possible to use it in this capacity. We consider that access to the reference library would be a valuable tool for the IAs and enhance their ability to interpret the x-ray images. However, we recognise that there would be costs associated with such a proposal and suggest that Customs assess the costs and benefits of providing the IAs with on-line access to the image library.
# 5. Facilities Operation

This chapter examines the requirements Customs had to meet in establishing the CEFs and for their ongoing operation. Agreed inspection targets, logistics and transport arrangements, industry liaison and Customs' management of its service provider contracts are discussed.

## Introduction

**5.1** The CEFs were established as part of a more comprehensive and integrated approach to sea cargo examination in Australia's major ports. The facilities operate within a complex maritime environment and this, to some extent, influences the effectiveness of their operations. There are multiple players in the logistics chain that Customs must rely on to maintain CEF throughput. The efficiency of these providers and other environmental factors, can impact on Customs' ability to meet agreed inspection targets.

**5.2** In reviewing the operations of the CEFs, the ANAO gave particular attention to:

- the requirements that had to be met in establishing the CEFs;
- logistics and transport arrangements;
- industry liaison; and
- Customs management of its various service provider contracts.

## **Establishing the CEFs**

**5.3** As part of the process to establish the CEFs, Customs was required to obtain an Australian Radiation Protection and Nuclear Safety Agency (ARPANSA) licence and International Organisation for Standardisation (ISO) accreditation.<sup>95</sup>

#### **ARPANSA** licence

**5.4** The CEFs are defined as prescribed radiation facilities under Regulation 6 of the *Australian Radiation Protection and Nuclear Safety Act*. To maintain its ARPANSA licence, Customs must comply with all licence conditions and meet the reporting requirements of the regulations.<sup>96</sup> Customs is also required to have a Radiation Safety Officer as part of its radiation safety

<sup>&</sup>lt;sup>95</sup> ISO is a worldwide federation of national standards bodies responsible for preparing international standards for international organisations, both government and non-government.

<sup>&</sup>lt;sup>96</sup> The ANAO is currently undertaking a performance audit of *ARPANSA Licencing Processes* and Customs' licences are being reviewed as part of this audit.

management team and an on-site Radiation Safety Awareness Officer at each CEF. It was also a requirement of the ARPANSA licence that the CEFs attain ISO 9001:2000 accreditation.<sup>97</sup>

#### **ISO** accreditation

**5.5** The ISO 9001:2000 standard requires an organisation to establish, document, implement and maintain a quality management system and continually improve its effectiveness.<sup>98</sup> All CEFs have attained ISO accreditation.<sup>99</sup> Ongoing ISO requirements include six-monthly surveillance audits for Melbourne, Sydney and Fremantle and 12-monthly surveillance audits for Brisbane.<sup>100</sup> The Brisbane CEF was able to draw on the experience of Melbourne and Sydney in developing its quality management system. This resulted in an increased period between surveillance audits.

**5.6** A component of accreditation is completing internal audits at planned six-monthly intervals to ensure the quality management system is being effectively implemented and maintained. Customs is required to develop and document this audit program. The ANAO was advised that the audit program has been developed but, to date, no internal audits have been completed.

**5.7** The ANAO considers that the requirements necessary for an ARPANSA licence ensure that the CEFs have in place adequate radiation protection and safety processes. ISO accreditation provides the framework to effectively maintain and improve the CEFs' quality management systems.

#### **CEF** inspection targets

**5.8** Customs advised that the inspection target for each CEF was originally modelled on the capacity of the x-ray technology and associated logistics requirements. Based on this data and, following consultation with Government regarding an appropriate level of inspection, a national target of 80 600 containers per annum was determined, once all CEFs were fully operational.<sup>101</sup>

**5.9** Each CEF had a 'ramp-up' period following the opening of the facility to allow for learning and adjustment. During this period, weekly inspections

<sup>&</sup>lt;sup>97</sup> ISO 9001:2000 was an initial licence condition, but the condition is now that Customs have a quality management system acceptable to the Chief Executive Officer of ARPANSA. Customs has decided to continue to adopt ISO 9001:2000 as its quality management system.

<sup>&</sup>lt;sup>98</sup> Australian/New Zealand Standard *Quality management systems–Requirements*.

<sup>&</sup>lt;sup>99</sup> Melbourne and Sydney were accredited in October 2003; Brisbane was accredited in June 2004; and Fremantle was accredited in September 2004.

<sup>&</sup>lt;sup>100</sup> Surveillance audits continue for a period of three years, then recertification is required.

<sup>&</sup>lt;sup>101</sup> The inspection target included 26 000 containers in both Melbourne and Sydney, 15 600 containers in Brisbane and 13 000 in Fremantle.

increased incrementally until the agreed weekly target was achieved.<sup>102</sup> Table 5.1 outlines the inspection targets for each CEF from when it became operational until 1 September 2004.<sup>103</sup> We found that none of the CEFs have achieved their inspection targets for this period.

#### Table 5.1

Inspection	targets	for	each	CEF	from	when	it	became	operational	until
1 Septembe	er 2004									

	Melbourne <sup>(1)</sup>	Sydney <sup>(2)</sup>	Brisbane <sup>(3)</sup>	Fremantle <sup>(4)</sup>	Total
Inspection target	42 975	35 875	20 840	9 140	108 830
Containers selected for inspection	41 138	32 279	20 435	7 945	101 797
Containers x-rayed	39 858	31 688	19 377	7 425	98 348
Inspections cancelled	1 280	591	1 058	520	3 449
Inspections cancelled as a percentage of selected containers	3.11	1.83	5.18	6.54	3.39

Source: ANAO analysis of Customs' EXAMS 1B systems data

Note 1: For period 27 November 2002–1 September 2004

Note 2: For period 7 March 2003-1 September 2004

Note 3: For period 31 March 2003–1 September 2004

Note 4: For period 18 November 2003–1 September 2004

**5.10** The CEF managers highlighted several factors that would impact on achieving the inspection targets. These include stevedoring and transport problems, equipment failure (Customs and service providers), insufficient number of containers targeted and environmental factors such as weather and seasonal ship arrival patterns.

**5.11** For all regions during this period, there were insufficient containers selected to enable the CEFs to meet inspection targets. This was particularly the case in Fremantle and Sydney where 87 per cent and 90 per cent respectively of the inspection targets were selected.<sup>104</sup> However, the ANAO was advised that, on occasions, the CEFs have requested the TSOs to reduce the number of containers being selected, as they were experiencing difficulties in managing existing throughput.

<sup>&</sup>lt;sup>102</sup> Melbourne had a 14-week ramp-up of 3 325 containers; Sydney had a 13-week ramp-up of 3 325 containers; Brisbane had an 11-week ramp-up of 1 570 containers; and Fremantle had an 11-week ramp-up of 1 350 containers.

<sup>&</sup>lt;sup>103</sup> These figures take into account the reduced weekly targets during each CEF's ramp-up period and the increase in inspection targets as part of the Government's enhanced maritime security arrangements.

<sup>&</sup>lt;sup>104</sup> Refer paragraph 2.10 and Table 2.1 of the *Target Selection* Chapter.

**5.12** For the same period, we also analysed the number of selections cancelled, categorised by priority rating (refer Appendices 4 to 7). We found that, selected containers were cancelled, despite the number of selections being below inspection targets. In particular, Fremantle and Brisbane cancelled 6.5 per cent and 5.2 per cent respectively of the total number of selections. Most regions cancelled priority three and four selections. However, Fremantle also cancelled a number of priority one selections (4 per cent). The ANAO recognises that there may be circumstances where it is necessary to cancel higher priority selections but notes that these should not be used to manage workflow.

**5.13** Customs' recent Post Implementation Review (PIR) noted that throughput targets would continue to be an important aspect of the CEF process and a more planned and analytical approach was required by the CEFs if inspection targets were to be consistently achieved. The PIR recommended that CEF Managers critically analyse their throughput patterns and develop and implement a plan to achieve weekly throughput. The ANAO supports this recommendation, particularly given the recent increase in inspection targets.

#### **Reviewing inspection targets**

**5.14** The ANAO acknowledges that Customs inspections compare favourably with other Customs agencies.<sup>105</sup> We also recognise that individual containers are selected for inspection based on an assessment of risk. However, we consider that Customs should regularly review its inspection targets. The targets were based on the capacity of the technology and logistical requirements rather than an analysis of the risks associated with sea cargo importations.

**5.15** A review of the targets would provide the opportunity to confirm, or otherwise, that the inspection targets are adequately addressing the risks presented by sea cargo importations into the CEF ports as well as being the most efficient for the technology and logistical arrangements. The review could draw on the data collected and analysed as part of the operational intelligence assessments we have recommended be undertaken by the regions.<sup>106</sup> The recent assessments undertaken to assess and strengthen Australia's maritime security arrangements would also be useful.

<sup>&</sup>lt;sup>105</sup> As noted in Chapter One (paragraph 1.21), Canada inspects approximately 3 per cent of containers and the United States inspects 5.6 per cent of loaded and empty imported containers.

<sup>&</sup>lt;sup>106</sup> Paragraphs 3.11–3.15 of the *Target Development* Chapter discuss these assessments.

# Logistics and transport arrangements

**5.16** Selecting and transporting containers to and from the CEFs has a substantial impact on the sea cargo logistics chain. Based on international experience, Customs recognised that optimising wharf logistics and the logistic chain in total was critical to the successful implementation of the CEFs. The logistics solution required a balance between three broad areas of consideration: operational requirements; industry convenience; and cost. Following broad consultation with industry and other government agencies, a transport operation managed by Customs was chosen as the preferred model.

**5.17** Customs has located the CEFs near to most wharves, on established container-transport routes. Containers are picked up from the terminal, shuttled through the CEF, and returned to the terminal for normal processing on completion. Figure 5.1 outlines the logistic model, which is managed under contract arrangements with the Container Terminal Operators (CTOs) and a transport service provider in each region.

#### Figure 5.1



#### CEF transport model

Source: ANAO analysis of Customs data

**5.18** The CEF managers in all regions emphasised that, managing the flow of containers to the facilities and maintaining daily throughput targets, requires constant communication between the CTOs, transport providers, the CEF and the target selection coordinator throughout the day. The ANAO observed this to be the case in all regions. The managers also felt that the resources required for this function had not been fully appreciated in the original staffing models.

#### Cost recovery and charges

**5.19** The more container inspections undertaken, the higher the logistics cost to Customs. Customs estimates the average logistics costs for transporting containers to and from the CEF is \$285 per container. Industry bears some of

the logistics costs through an Import Processing Charge (IPC). The Government decided that s.186 of the *Customs Act 1901* applied to the logistics arrangements involved in the container examination initiative and, as of 1 May 2003, approved an increase in the IPC. New regulations were made under the *Import Processing Charges Act 1997* and charges were increased by \$14.35 per consignment to \$44.00 for entries lodged electronically and \$65.75 for manual import entries.

**5.20** The increase in the IPC does not recover all logistics costs. Total logistics costs for 2003–04 were \$18 million. Customs received \$16.3 million in Government funding, leaving a shortfall of \$1.7 million, which was borne by Customs. In the 2004–05 Budget, Customs received additional funding to cover its logistics costs.

# **Industry liaison**

**5.21** Customs recognised the importance of liaising with industry and, as part of the Container Examination Project, developed a communication plan. The plan identified industry groups and Customs consulted widely with each, prior to the CEFs opening, outlining:

- why Customs was implementing container x-ray technology and where the facilities would be located;
- how owners would be notified of a container selection and what they would be required to do;
- who would be expected to pay transport costs; and
- what would be the impact on business.

**5.22** The ANAO consulted a number of industry bodies as part of the audit. The major concern for industry is the imposition of storage charges, which is discussed later in this chapter. Industry representatives advised that, although Customs initially discussed how the CEFs would operate, they did not believe that Customs had fully understood the logistical chain processes and the impact of the facilities on these processes. Industry participants also did not fully appreciate the impact of the CEFs until they were actually involved in the inspection process. Customs has a number of strategies in place for ongoing liaison with industry.

## Existing communication strategy

**5.23** Industry consultation and feedback is maintained through Customs participation in various industry consultative forums in each region. At a national level, Customs' National Consultative Committee, chaired by the Chief Executive Officer, includes industry representatives and meets quarterly.

Other communication initiatives include visits to the CEFs by industry representatives, regular meetings with industry groups and Australian Customs' Notices and information sheets.

**5.24** The PIR also addressed the issue of ongoing industry liaison and recommended developing, in consultation with peak industry bodies, a communication strategy. The strategy would provide advice to industry groups, importers and exporters about Customs border protection role, the operations of the CEFs and their impact on industry, as well as the appropriate means and timeframes for enquiring about cargo subject to a Customs hold. The ANAO supports this initiative.

**5.25** As part of its review process, Customs also asked industry to provide comments on the operational business processes of the CEFs. The following issues were raised:

- timely reporting of cargo and late notification; and
- storage charges.

#### Timely reporting of cargo and late notification

**5.26** Industry representatives acknowledge that the late reporting of sea cargo manifests is a long-standing problem. Currently, manifest providers are required to provide reports at least 48 hours before the vessel's arrival. When cargo is reported late, the timeframe in which to assess the cargo reports and make appropriate arrangements to inspect selected containers is reduced. It can often result in the late notification to CTOs of containers selected for inspection. The flow on effects are further delays to the logistics process, additional container moves and additional costs for Customs and importers.

**5.27** Customs is addressing late reporting through its Cargo Reporting Assurance Strategy. The strategy places a heavy emphasis on industry education through client visits and targets companies with poor compliance records. Monthly reports identify problem cargo reporters so further contact and discussion of performance results can be initiated. Customs advised that there has been considerable improvement in cargo reporting under this strategy, with approximately 88 per cent of sea cargo reports now on time. The introduction of ICS and its related legislation will allow Customs to enforce penalties for late reporting.

#### Storage charges

**5.28** Industry requires predictability of container release to manage its cargo logistic processes. Prior to the commencement of the CEFs, the Customs Brokers and Forwarders Council of Australia (CBFCA) outlined that the most critical component of the container x-ray strategy was:

ensuring that existing industry processes for container release and delivery are not affected...any significant variations to such processes [would incur] additional costs and delivery constraints...over and above Customs' costs.<sup>107</sup>

**5.29** The wharf environment, in most regions, operates 24 hours a day, seven days a week. CTOs provide free storage for containers for 72 hours (three days) from when the container has been declared available and storage charges apply to containers not collected after this time. If containers take longer than three days to go through the CEF, storage charges will apply.

**5.30** To collect containers from the terminals, the importer's transport provider must book time slots in a Vehicle Booking System (VBS). The VBS is used at all ports to ensure a consistent flow of containers in and out of the terminal. The two major stevedores have separate systems that release time slots at certain intervals each day for transport providers to book collection times. Stevedores impose penalties when transport providers are late, or do not show up, to a booking.

**5.31** Industry advised the ANAO that transport providers have difficulty in obtaining desirable time slots and, in many instances; bookings must be made at least two days in advance. Whilst the ANAO is aware of the difficulties in collecting containers during regular business hours, we were advised that slots are available outside these hours. It is the additional costs in overtime and out-of-hours charges that deter importers from utilising these time slots. When a container selected for inspection is returned to the wharf with one day or less free storage time remaining, the potential for an importer to incur storage charges is increased, particularly if the time slots available are not acceptable to the importer/broker.

**5.32** The Australian Customs Notice No.2004/33 states that slot times should not be booked before cargo is cleared by Customs. Industry representatives advised the ANAO that this is not a commercial reality. In order to avoid incurring storage charges, many transport providers book slots on the third day of availability, contrary to Customs advice, and run the risk of incurring cancellation fees. Industry representatives suggested that extending the CEFs hours of operation would help ameliorate delays in CEF processing and provide more flexible out of core hours operations. This will help to ensure that containers are returned within the free storage period.

**5.33** Part of the Government's strategy to strengthen maritime security involves extending the hours of operation of all CEFs to include an eight-hour shift on Saturday and to increase the Brisbane CEF's hours of operation to two

<sup>&</sup>lt;sup>107</sup> Customs Brokers & Forwarders Council of Australia Inc., 24 March 2004.

shifts Monday to Friday.<sup>108</sup> The ANAO considers that the extension of CEF operating hours should help to alleviate some of industry's concerns relating to storage charges. It should also reduce the number of complaints received by the Customs' Information & Support Centre (CI&SC).

**5.34** Importers and other industry representatives are able to make enquiries and provide feedback via the CI&SC, a centralised call centre located in Sydney. Customs advised that complaints in relation to the CEF *'process took too long'* and *'didn't expect fees'* were 79.5 per cent of total complaints for the period 1 December 2002 to 29 February 2004.

## **Customs' management of CEF contracts**

**5.35** In all regions, Customs has negotiated contracts with a number of service providers for logistics services (container handling, transport and unpack/repack). It is anticipated that, collectively, the value of these contracts will be \$29.6 million in 2004–05. Customs also has in place a maintenance contract (valued at \$1 million) for the three east coast container x-ray machines. The ANAO reviewed Customs' ongoing management of these contracts. We did not review the initial contract tender or negotiation processes.

**5.36** The contract management model adopted by Customs requires the contracts to be administered jointly by a National Contract Manager and Relationship Managers (CEF Manager) in each region. The CEF managers are responsible for managing the day-to-day relationship with all contractors in their region, ensuring that service delivery requirements are met. The National Contract Manager is responsible for:

- monitoring and reviewing contract compliance;
- national performance management and review, including benchmarking between ports; and
- identifying and resolving contract related activities where national coordination is required.

#### Performance against contracts

**5.37** The maintenance contract for the east coast container x-ray machines was finalised with the manufacturer in April 2004, on completion of the 12-month warranty period. The 12-month warranty period for the Fremantle container x-ray machine expired in November 2004 and Customs advised that it was in the process of negotiating a maintenance contract with the manufacturer. The contract is for a fixed price, with engineers located on-site at

<sup>&</sup>lt;sup>108</sup> Senator The Hon. Christopher Ellison *\$75.4 million package provides major boost for Australia's maritime security*, 20 July 2004.

all CEFs. The container x-ray machines are considered very reliable and there have been no significant breakdowns since they were installed. All CEF managers advised the ANAO that they are satisfied with the service provided by the contractor and any equipment failure is repaired immediately.

**5.38** Customs advised that, overall, performance against the logistics services contracts is reasonably effective. However, it is recognised that performance and, particularly some key performance indicators, could be improved. There are also a number of operational issues within the contracts that must be resolved.

#### Issues relating to the management of service providers' contracts

**5.39** A number of issues relating to Customs ongoing management of its contracts were raised during this audit. They were also highlighted in the PIR. Of major concern are the following areas:

- development of logistics plans;
- physical segregation and prioritisation of selected containers; and
- priority access for the transport services contractor.

#### Development of logistics plans

**5.40** It is a requirement of the container handling and transport services contracts that logistics plans are developed in consultation with Customs. The ANAO was advised that, although there are agreed procedures that facilitate the movement of containers from the wharf to the CEF and return, there have been no formal plans developed or signed off by all parties for any of the CEF ports. The PIR noted that:

The non-existence of these plans has contributed to differences in interpretation of terminology contained within the contracts, and the acceptance of practices, which could be interpreted as counter productive to the envisaged benefits of the contracts.<sup>109</sup>

#### Segregation of containers

**5.41** Containers selected by Customs are not always physically segregated as required by the contract. The practice of electronically identifying Customs targeted containers to create a 'virtual stack' occurs at both terminals in Melbourne and one of the terminals in Sydney.<sup>110</sup> This practice would appear to negate the physical security expectations outlined in the container handling

<sup>&</sup>lt;sup>109</sup> Customs Container Examination Facilities *Post Implementation Review,* June 2004, p. 29.

<sup>&</sup>lt;sup>110</sup> At the other terminals, cargo is placed in 'real' stacks.

contracts.<sup>111</sup> The ANAO was advised that Customs had agreed to this practice because of the stacking methods used at these terminals. However, this agreement has not been reflected in the relevant container handling contracts.

**5.42** The PIR recommended that Customs investigate the different approaches to container segregation and 'virtual' Customs stacks, with consideration being given to adopting a nationally consistent approach of 'real' stacks. The preferred approach should be formalised in the container handling contracts. The ANAO supports this recommendation and considers that the decision should be made in the light of the risks and costs involved, and properly documented.

#### Priority access to Customs' transport services provider

**5.43** Customs' transport service providers are to be given priority access to the terminals. The ANAO was advised that it was intended that an electronic transponder would be used to allow gate access. However, this was not clearly specified in the contracts and is only used at one of the CTO's terminals in Melbourne and Sydney. The review found, and this was confirmed by the ANAO, that the means by which priority is afforded to the transport service providers differ in each region. For example, at one of the terminals in Sydney, the contractor is given priority via a special 'stack', with no outside queuing. In Brisbane, the CTO restricts the contractor to pre-booked time slots.

**5.44** The review also noted that the operational realities and contrasting interpretation of priority by Customs and its individual contractors has created considerable confusion. There are also inconsistencies in how KPIs are measured by the contactors. For example, one of the CTOs measures the truck turnaround time from entry to exit at the terminal gate. A transport contractor measures turnaround time from arrival time to departure time at the wharf.

**5.45** In the ANAO's view, a number of the problems associated with the logistical arrangements for segregating, prioritising and transporting containers would be identified and addressed as part of the process of developing a logistics plan for each port. Each plan must be developed in consultation with the relevant CTO and transport contractor. The roles and responsibilities of all parties should be clearly defined. Standardised practices should be established, implemented across ports, and incorporated into the relevant service provider's contract.

<sup>&</sup>lt;sup>111</sup> The Detailed Service Specifications outlined in the contract state that segregated containers must be secured in a manner that is consistent with Customs Security Policy.

## **Recommendation No.7**

**5.46** To identify and address problems associated with segregating, prioritising and transporting selected containers to and from the Container Examination Facilities (CEFs), the ANAO recommends that Customs, in consultation with the container terminal operators and transport service providers, develop a logistics plan for each CEF port.

#### Customs response

**5.47** Agreed. Customs is in the process of implementing this recommendation. Detailed discussions have been undertaken with the relevant service providers, a national framework has been established and local management of the CEFs and service providers are in the process of finalising logistical workflows for their CEFs.

#### Monitoring performance

**5.48** It is the responsibility of the contract manager(s) to monitor the actual performance of the service providers against the desired performance outlined in the service level agreements (SLA). All CEF contracts outline monitoring mechanisms to assess the service provider's performance against the relevant KPIs. These include monthly reports, comparison against internal records or another service provider's records, comparison against yearly costs, quarterly reports and periodic audits by Customs.

5.49 In reviewing how performance is monitored, the ANAO found that:

- there are no standard reports required from Customs' logistics partners and, although performance information is reported, it is not to the level of detail required by the KPI schedule;
- the SLAs for transport and unpack/repack services noted that the KPIs were to be reviewed after the first three months of operation. To date, this has not occurred;
- container handling and transport service providers are to be evaluated against, amongst other things, whether KPIs have been achieved and comply with the requirements of the service specifications and the logistics plan. However, as previously noted, no logistics plans have been developed;
- there have been no periodic audits undertaken, comparison against yearly costs and no evaluation across regions to compare performance or to identify better practice;

- service providers send quarterly reports to the national contract manager but they are not analysed from an overall performance perspective; and
- CEF managers reconcile the monthly reports but find it difficult to assess or enforce performance against stated time targets in the SLAs because they are not clearly defined.

**5.50** Customs recognises that its contract management processes could be improved and that there are a number of issues relating to its existing contracts that need to be resolved. The PIR recommended:

A thorough review of contracts associated with logistics services (container handling and transport) be undertaken, identifying the difference between current practice and the contracts, and determining where changes are required to ensure consistency and improved processes.<sup>112</sup>

**5.51** The ANAO fully supports this recommendation. However, we also consider the review should be more comprehensive, given the operational experience now available and the capacity for 'lessons learned'. It would also give Customs the opportunity to prepare for the re-negotiation of the container handling and transport services contracts in 2005. In our view, the contract review process should include:

- a thorough assessment of the risks associated with the contracted service delivery;<sup>113</sup>
- benchmarking performance across ports to identify consistent standards and better practice that may be incorporated into the new contracts and as an ongoing process for continuous improvement;
- an evaluation of the existing SLAs<sup>114</sup>, service specifications and KPIs<sup>115</sup>;
- reviewing the existing performance management framework to ensure that the contracted services are being measured and that the methods for measuring and monitoring performance are appropriate and effective; and

<sup>&</sup>lt;sup>112</sup> Customs Container Examination Facilities *Post Implementation Review,* June 2004, p. 35.

<sup>&</sup>lt;sup>113</sup> There are, generally, at least two levels of risk associated with contracted service delivery: contract riskthe risk associated with the delivery of the service; and contract management risk-the risk associated with the management of the contract.

<sup>&</sup>lt;sup>114</sup> SLAs should include: definitions of the work in measurable terms; the standards including quality, quantity and timeliness requirements; and descriptions of how the providers' performance will be assessed against the standards.

<sup>&</sup>lt;sup>115</sup> The KPIs should be measurable statements related to cost, time, quality and service.

• developing a regular, standardised performance reporting regime that allows straightforward analysis of any relevant information and performance over time.<sup>116</sup>

## **Recommendation No.8**

**5.52** Prior to renegotiating its container handling, transport services and unpack and repack services contracts, the ANAO recommends that Customs undertake a comprehensive review of these contracts including:

- an assessment of the risks associated with the contracted service delivery;
- benchmarking performance across ports;
- an evaluation of existing service level agreements, service specifications and key performance indicators;
- reviewing the existing performance management framework; and
- developing a standardised performance reporting regime.

#### Customs response

**5.53** Agreed. Customs is already in the process of seeking to standardise performance reporting and establish benchmarking of performance across ports. Detailed discussions have been held with the container terminal operators and Customs is in the process of revising some existing key performance indicators.

Canberra ACT 14 December 2004

r Janet

P. J. Barrett Auditor-General

<sup>&</sup>lt;sup>116</sup> Australian National Audit Office, Contract Management Better Practice Guide, February 2001, pp. 52–53.

Appendices



Customs House 5 Constitution Avenue CANBERRA ACT 2600

Barbara Cass A/g Executive Director Performance Audit Services Group Australian National Audit Office GPO Box 707 CANBERRA ACT 2601

Dear Ms Cass

I refer to your letter of 20 October 2004 to the Chief Executive Officer regarding the ANAO's Performance Audit of the administrative effectiveness of Customs Container Examinations Facilities (CEFs).

Customs welcomes the draft report. Progress in implementing the recommendations will be reported through the Audit Committee, which the ANAO attends. Customs response to the recommendations raised in the audit is at Attachment A. All recommendations have been agreed and some progress is also noted in our response. A Summary section has also been included for use in the Report's Summary and the brochure you propose to produce.

The audit has already been of considerable benefit and Customs is sure it will facilitate further improvements in CEF performance. The opportunity to comment throughout the audit and during the draft report phase is appreciated. Your thorough and constructive approach to the audit has contributed to a very practical report and a positive environment that will also assist Customs to implement the recommendations.

protecting our borders

If you require any additional information please contact Glenn Lyon, Director Sea Technology Strategies on (02) 6275 6938.

Yours sincerely

J M Drury

Deputy Chief Executive Officer

18 November 2004

#### Attachment A

# ANAO's Performance Audit of Administrative Effectiveness of Customs Container Examination Facilities (CEFs)

#### Summary

Customs welcomes the report and has agreed with all the recommendations.

The audit has already been of considerable benefit. Action to implement the recommendations is already underway and Customs is sure this will facilitate further improvements in CEF performance.

#### Recommendations

#### Recommendation No. 1, paragraph 2.40

To more effectively manage logistical coordination, the ANAO recommends that Customs consider adopting a consistent national approach by:

- (a) assessing the feasibility of using the EXAMS system to monitor and track selected containers, including the reporting capability of the Corporate Research Environment;
- (b) clearly defining the roles and responsibilities associated with the target selection coordinator's position; and
- (c) providing appropriate training and developing procedural guidelines for this specialist position.

Customs response:

- (a) Agree
- (b) Agree
- (c) Agree

#### Recommendation No. 2, paragraph 3.15

To strengthen target development and target selection processes and to provide a better understanding of the sea cargo environment in which regions are operating, the ANAO recommends that the New South Wales, Victorian and Queensland regions:

- (a) complete an assessment of the sea cargo imports and exports discharging into their respective ports; and
- (b) regularly review and update this data so that it may be used as a reference source for developing risk profiles.

#### Customs response:

- (a) Agree
- (b) Agree

#### Recommendation No. 3, paragraph 3.39

To strengthen high-risk country identification and target selection practices, the ANAO recommends that Customs review the risk profiles of cargo origin countries and, as part of this review:

- (a) re-evaluate the risk ratings for all major countries;
- (b) revise the weighting applied to country risks; and
- (c) develop a process to regularly review this risk rating set.

#### Customs response:

- (a) Agree
- (b) Agree
- (c) Agree

#### Recommendation No. 4, paragraph 4.18

To enable accurate reporting of the inspections and examinations carried out by the Container Examination Facilities (CEFs) using EXAMS system data, the ANAO recommends that Customs develop:

- (a) common system business rules and reporting parameters for the EXAMS system; and
- (b) standardised report templates in the Corporate Research Environment that are specific to the CEFs.

Customs response:

- (a) Agree
- (b) Agree

#### Recommendation No. 5, paragraph 4.29

To capture inspection and examination data accurately and consistently, the ANAO recommends that Customs develop and implement guidelines that clearly articulate:

- what constitutes a positive find at the Container Examination Facility (CEF), including when the cargo is referred to another area;
- how the find is to be recorded by the CEF in the EXAMS system;
- how this information will be treated by the EXAMS system; and
- who is responsible for completing the EXAMS record.

Customs response:

Agree

#### Recommendation No. 6, paragraph 4.46

To enable the operational effectiveness of the Container Examination Facilities (CEFs) to be assessed and reported on, the ANAO recommends that Customs:

- (a) develop performance measures and targets specific to the CEFs; and
- (b) include these measures in Customs' Outcome/Outputs framework performance information.

#### Customs response:

- (a) Agree
- (b) Agree

#### Recommendation No. 7, paragraph 5.46

To identify and address problems associated with segregating, prioritising and transporting selected containers to and from the Container Examination Facilities (CEFs), the ANAO recommends that Customs, in consultation with the container terminal operators and transport service providers, develop a logistics plan for each CEF port.

Customs response:

Agree

Customs is in the process of implementing this recommendation. Detailed discussions have been undertaken with the relevant service providers, a national framework has been established and local management of the CEFs and service providers are in the process of finalising logistical workflows for their CEFs.

#### Recommendation No. 8, paragraph 5.52

Prior to renegotiating its container handling, transport services and unpack and repack services contracts, the ANAO recommends that Customs undertake a comprehensive review of these contracts including:

- an assessment of the risks associated with the contracted service delivery;
- benchmarking performance across ports;
- an evaluation of existing service level agreements, service specifications and key performance indicators;
- reviewing the existing performance management framework; and
- developing a standardised performance reporting regime.

#### Customs response:

#### Agree

Customs is already in the process of seeking to standardise performance reporting and establish benchmarking of performance across ports. Detailed discussions have been held with the container terminal operators and Customs is in the process of revising some existing key performance indicators.



Appendix 2: Target selection, inspection and examination processes

Source: ANAO analysis of Customs data

# Appendix 3: Sea Cargo Reports

# Cargo reports (manifest lines) received and screened by region for period 1 July 2002 to 30 June 2003

Region	Melbourne	Sydney	Brisbane	Fremantle	Total
Electronic manifest lines received	558 624	580 157	216 451	109 738	1 464 970
Electronic manifest lines screened	318 865	536 196	167 518	86 811	1 109 390
Electronic manifest lines screened as a percentage of received	57.08	92.42	77.39	79.11	75.73
Manual manifest lines received	6 700	4 532	3 022	2 544	16 798
Manual manifest lines screened	5 245	3 556	2 274	2 544	13 619
Manual manifest lines screened as a percentage of received	78.28	78.46	75.25	100.00	81.08

Source: ANAO analysis of Customs data

# Cargo reports (manifest lines) received and screened by region for period 1 July 2003 to 30 June 2004

Region	Melbourne	Sydney	Brisbane	Fremantle	Total
Electronic manifest lines received	623 946	567 872	244 709	124 464	1 560 991
Electronic manifest lines screened	532 465	546 272	244 491	123 622	1 446 850
Electronic manifest lines screened as a percentage of received	85.34	96.20	99.91	99.32	92.69
Manual manifest lines received	3 861	8 265	1 231	2 286	15 643
Manual manifest lines screened	3 861	8 192	1 190	2 286	15 529
Manual manifest lines screened as a percentage of received	100.00	99.12	96.67	100.00	99.27

# Appendix 4: ANAO analysis of data from Melbourne CEF for the period 27 November 2002 to 1 September 2004

	Priority 1	Priority 2	Priority 3	Priority 4	Total
X-ray inspection target					42 975
Number of containers selected for x-ray inspection	1 647	14 387	19 844	5 260	41 138
Number of containers selected for x-ray as a percentage of the x-ray inspection target					95.73
Number of containers selections cancelled	22	322	794	142	1 280
Number of container selections cancelled as a percentage of the containers selected for x-ray	1.34	2.24	4.00	2.70	3.11
Number of container x-ray inspections	1 625	14 065	19 050	5 118	39 858
Number of container x-ray inspections as a percentage of the x-ray inspection target					92.75
Number of containers physically examined	1 171	1 167	895	278	3 511
Number of containers physically examined as a percentage of containers x-rayed	72.06	8.30	4.70	5.43	8.81
Number of positive finds					194
Number of drug finds					7
Number of compliance finds					104
Number of quarantine finds					53
Number of prohibited item finds					30

# Appendix 5: ANAO analysis of data from Sydney CEF for the period 7 March 2003 to 1 September 2004

·	Priority 1	Priority 2	Priority 3	Priority 4	Total
X-ray inspection target					35 875
Number of containers selected for x-ray inspection	1 333	17 865	12 983	98	32 279
Number of containers selected for x-ray as a percentage of x-ray inspection target					89.98
Number of containers selections cancelled	26	312	241	12	591
Number of container selections cancelled as a percentage of container selected for x-ray	1.95	1.75	1.86	12.24	1.83
Number of container x-ray inspections	1 307	17 553	12 742	86	31 688
Number of container x-ray inspections as a percentage of the x-ray inspection target					88.33
Number of containers physically examined	1 146	723	332	2	2 203
Number of containers physically examined as a percentage of containers x-rayed	87.68	4.12	2.61	2.33	6.95
Number of positive finds					289
Number of drug finds					12
Number of compliance finds					220
Number of quarantine finds					44
Number of prohibited item finds					13

# Appendix 6: ANAO analysis of data from Brisbane CEF for the period 31 March 2003 to 1 September 2004

	Priority 1	Priority 2	Priority 3	Priority 4	Total
X-ray inspection target					20 840
Number of containers selected for x-ray inspection	660	2 856	11 616	5 303	20 435
Number of containers selected for x-ray as a percentage of x-ray inspection target					98.06
Number of containers selections cancelled	13	76	659	310	1 058
Number of container selections cancelled as a percentage of container selected for x-ray	1.97	2.66	5.67	5.85	5.18
Number of container x-ray inspections	647	2 780	10 957	4 993	19 377
Number of container x-ray inspections as a percentage of the x-ray inspection target					92.98
Number of containers physically examined	389	475	635	247	1 746
Number of containers physically examined as a percentage of containers x-rayed	60.12	17.09	5.80	4.95	9.01
Number of positive finds					141
Number of drug finds					1
Number of compliance finds					97
Number of quarantine finds					27
Number of prohibited item finds					16

# Appendix 7: ANAO analysis of data from Fremantle CEF for the period 18 November 2003 to 1 September 2004

·	Priority 1	Priority 2	Priority 3	Priority 4	Total
X-ray inspection target					9 140
Number of containers selected for x-ray inspection	176	1 828	5 837	104	7 945
Number of containers selected for x-ray as a percentage of x-ray inspection target					86.93
Number of containers selections cancelled	7	76	408	29	520
Number of container selections cancelled as a percentage of container selected for x-ray	3.98	4.16	6.99	27.88	6.54
Number of container x-ray inspections	169	1 752	5 429	75	7 425
Number of container x-ray inspections as a percentage of the x-ray inspection target					81.24
Number of containers physically examined	157	203	290	5	655
Number of containers physically examined as a percentage of containers x-rayed	92.90	11.59	5.34	6.67	8.82
Number of positive finds					81
Number of drug finds					1
Number of compliance finds					62
Number of quarantine finds					11
Number of prohibited item finds					7

# Appendix 8: Customs' Outcome and Output Framework

<u>Customs Outcome:</u> Effective border management that, with minimal disruption to legitimate trade and travel, prevent illegal movement across the border, raises revenue and provides trade statistics

<b>A</b>	<b>•</b>		<b>A</b>	•	<b>A</b>
Output 1	Output 2	Outp	out 3	<u>Output 4</u>	Output 5
Facilitation of the legitimate movement of goods across the border, while intercepting prohibited and restricted imports and exports.	Facilitation of the legitimate movement of people across the border, while identifying illegal movements.	Civil maritime surveillance and response.		Administration of Customs duty and indirect taxes, other border-related revenue collections, and import/export statistics.	Anti-Dumping and countervailing administration.
<b>A</b>				<b>A</b>	
Identify and apply best pract drugs and other prohibited in and intelligence developmen <b>Facilitate movements of g</b> <i>Quality</i> • Proportion of electronically authority to deal is transmith finalisation of entry details • Electronic cargo systems - • Rates of appeal against de Customs is over-turned <i>Quantity</i> • Number of imported air wa • Number of sea cargo mani • Number of export entries le <b>Interception of prohibited</b> / <i>Quality</i> • Weight and number of drug • Weight and number of drug • Weight of drug seizures by	tice in relation to the intercept mports, particularly in respect nt. oods v lodged import declarations w ed within 15 minutes of entry p - availability to Customs client ecisions where the original dec vybills reported fest lines reported odged vrestricted goods g detections by significance of v mode of importation for seizures of other prohibitec	ion of illicit of targeting here an payment and s cision by f offence I imports	Processing of revenue coll statistics and Customs dut Collection of <i>Quality</i> • Electronic ( • Significant <i>Quantity</i> • Number of <i>Revenue co Quality</i> • Imports – to proportion of <i>Quantity</i> • Revenue a • Rec • Ref • Number of	of Customs duty and indirect ta ections, the collection and rep d the investigation and prosect ty evasion. <b>of revenue</b> cargo systems availability to C revenue collected Customs import entries lodger <b>ompliance verification</b> otal Customs value subject to d total Customs value subject to f total Customs value subject to f total Customs value subject to di total Customs value subject to di total Customs value subject to fraud/evasion cases adopted i	uxes, other border-related orting of import/export ution of import fraud and ustoms clients d compliance activity as a for prosecution

Source: Australian Customs Service summarised by ANAO

Note: Shaded sections represent the elements of the Outcome/Output framework relevant to the CEFs

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