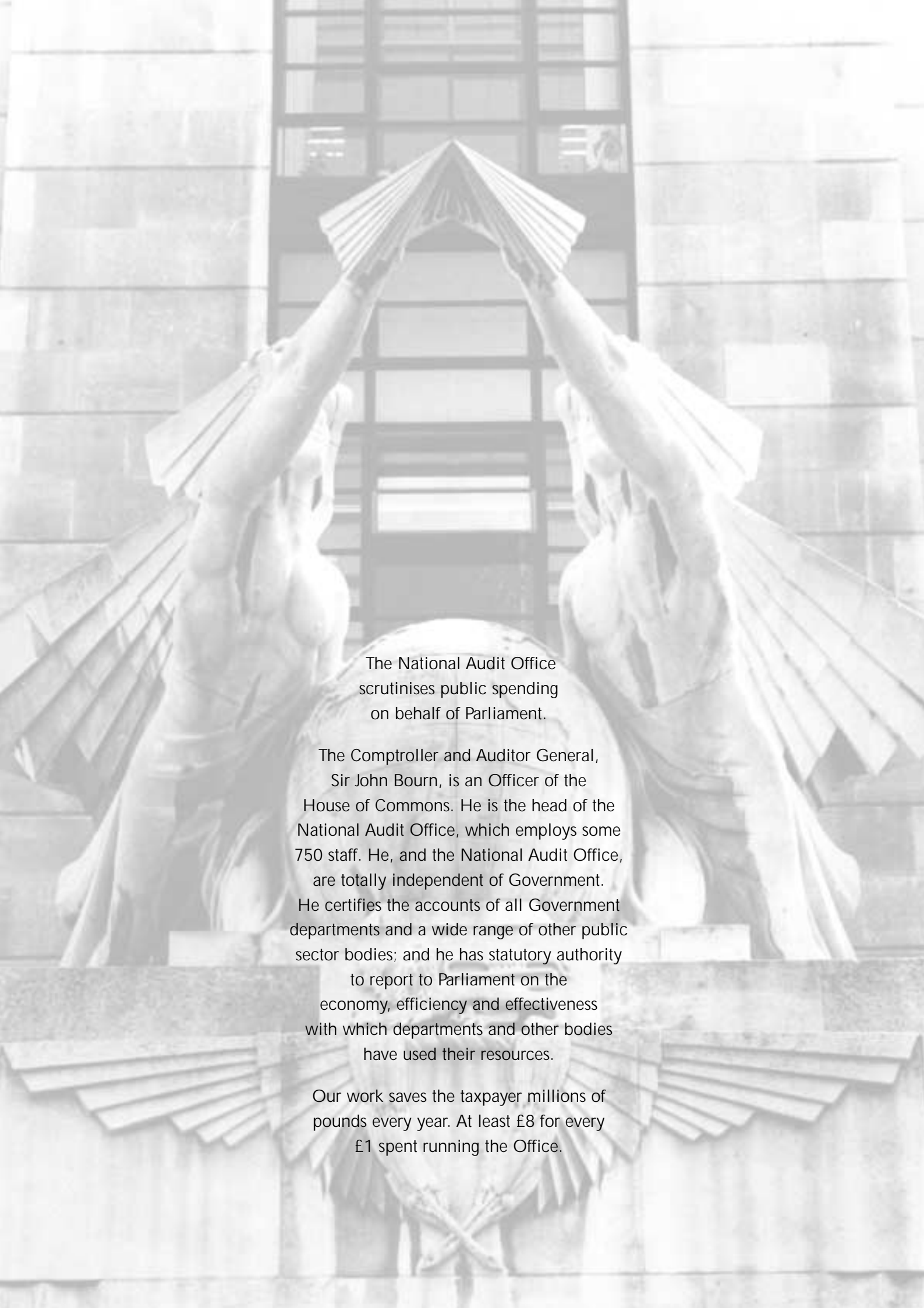


HM Customs and Excise
**Regulating Freight Imports from
Outside the European Community**

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
HC 131 Session 2000-2001: 2 February 2001





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HM Customs and Excise

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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

John Bourn National Audit Office
Comptroller and Auditor General 23 January 2001

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- 1 In 1999-2000 HM Customs and Excise collected revenue of £20.6 billion from freight imports from outside the European Community. These accounted for around 48 per cent of the total value of goods brought into the United Kingdom, and were valued at some £97 billion in 1999-2000. In total, Customs processed some 7.1 million individual import declarations during the year.
- 2 Customs' objective when regulating freight imports is to secure compliance with statutory, European Community and international customs obligations in ways which facilitate global trade. Until recently, the work has required Customs to hold goods at the frontier while the importer submits a declaration to Customs and pays any duty on the goods. Customs officers may check consignments before releasing the goods to the importer, and if they do their Charter Standards set out the target times they aim to meet in carrying out their checks. Customs are now encouraging importers to use new simplified import procedures (known as CFSP) that reduce the amount of work required at the frontier.
- 3 This report examines whether Customs meet their objective of securing compliance while facilitating trade. In particular, it examines:
 - the way in which Customs manages risks to revenue at the frontier;
 - how Customs seek to minimise the burden of compliance on importers looking at:
 - the quality of service provided, and
 - their progress with introducing simplified import procedures.

Other reports published by us have examined aspects of Customs' responsibilities for dealing with smuggling.



- 4 Handling imports is a complex business and Customs have to manage numerous conflicting pressures. Our main conclusion is that:

"Customs regulate imports effectively but there is scope for improvements in all the areas covered by our report, particularly in the way that Customs measure their performance, identify risks to the revenue and the action they take to address these risks. Customs are already making a number of improvements"

Customs management of risks at the frontier

- 5 Typical errors that Customs look for include the misdescription of goods or an incorrect tariff coding, incorrect arithmetic calculations or incorrect valuations of the goods. Customs are working on a range of activities to improve the way these risks to the revenue are managed, but recognise that they could do more to structure their work at the frontier in a way that more systematically prevents and detects inaccurate import declarations.
- 6 Import declarations are selected for in depth checking if these match parameters set by Customs' staff on their computer system. The parameters can be set centrally to cover all declarations or locally to cover declarations made by importers in that area. For example Customs staff could set parameters to select for checking all consignments of computers from the USA which have a value of more than £10,000 each. At the time of our work, however, Customs local office staff did not carry out a thorough analysis of imports to highlight all possible areas of risk. Local staff decided on which declarations to check based on their previous experience. This may have meant that certain types of imports were never checked, as local staff concentrated on those groups of declarations that had been incorrect in the past. Customs had already started to further develop their methods for analysing the risks to the revenue which will be used to better inform which declarations should be selected for checking.
- 7 Customs record and analyse the results of their checks which helps them to influence their future work but they could refine their approach further. For example, it is not possible to distinguish between a check that was not carried out and one that did not lead to the detection of an error in an import declaration. Without this information, Customs are unable to identify which type of checks are more likely to detect cases where the importer is not paying the correct duty. Customs intend to collect and analyse this information but do not consider that changes to their computer system would be cost effective until it is replaced in 2004.
- 8 From 1996-97 to 1999-00 the value of underdeclarations detected by Customs increased by £364 million (from £131 million to £495 million) or over 275 per cent, but since 1998-99 the number of irregularities found per 1,000 declarations checked has fallen by 20 per cent. While these data suggest that Customs' risk based approach to selecting and checking declarations has been successful the results could also be due to an overall increase in the value of errors made by importers or a combination of the two.
- 9 Customs recognised that to be able to assess their performance they needed valid and reliable estimates of the overall compliance levels among importers. With this in mind Customs, from April 2000, introduced new methods, along the lines suggested by us, to link targets to the level of compliance among importers. This involves Customs selecting random samples of declarations for checking from the total declarations made by importers. The results will then be used to calculate the overall error rate, from which a baseline of the level of compliance can be established.
- 10 We found examples of good practice where Customs encourage importers to comply with import requirements as well as detecting those importers who do not. All Customs' local offices we visited had introduced some form of preventative measures such as visiting importers or their agents who made persistent errors on their import declarations in order to prevent them recurring. Customs recognise however that this type of work may not always have been sufficiently encouraged in the past and intend to develop further measures to ensure that the practice is adopted nationally.



- 11 Because Customs need to carry out checks on all declarations where statutory requirements apply (such as checks on import quotas and whether food imports meet health requirements) local offices need to do these checks efficiently to ensure that they have sufficient time available to carry out checks on whether the correct amount of duty has been paid. We were unable to confirm the amount of time local offices allocate to the different types of checks because Customs do not record the information in a way that permits this type of analysis. Our work, however, identified that there may be scope for local offices to carry out the statutory checks more efficiently and Customs are now looking to identify further practices that could streamline the work.

Summary recommendations

- 12 Customs should further develop their risk management systems to make their checks on declarations more effective. Specifically Customs should ensure that:
- all local offices have a plan in place to identify and analyse the risks to the revenue and the service to traders, and test those risks;
 - when their computer systems are replaced in 2004, they should consider introducing enhancements that will record details of those declarations selected for checking but which are not because of pressure to release consignments.
- 13 Customs should focus more closely on their objective of securing compliance of importers to pay the correct amount of duties by:
- carrying out the random sampling exercise in 2000-01 and using the results as a basis for setting targets to increase importers and their agents compliance;
 - using more widely, practices which encourage importers and their agents to improve the accuracy of declarations; and
 - looking at how they can ensure that good practice is disseminated throughout the organisation more effectively.
- 14 Customs should aim to carry out the statutory checks more efficiently so that resources are released for other work by:
- analysing the amount and type of work they perform for statutory purposes to identify the areas where there may be opportunities to carry out the work more efficiently;
 - exploring opportunities that could streamline and make more efficient the system of checks carried out by Customs local offices such as by promulgating good practice; and
 - carrying out research to determine whether at some offices the work on statutory checks is reducing the scope for them to carry out checks on the revenue, and if this is the case to redistribute resources accordingly.



Customer Service

- 15 Importers require a consistent, predictable and rapid service from Customs staff at the frontier. To help achieve this, Customs aim to meet three key Charter Standards which are:
- Releasing within 12 hours at least 90% of the consignments selected for documentary checks;
 - Releasing within 24 hours at least 90% of the consignments selected for physical examinations;
 - Settling within 30 working days 90% of claims from importers for repayment of duty.
- 16 On releasing consignments to importers, Customs exceeded their targets by a wide margin in each of the years 1996-97 to 1999-2000. The Simplified Trade Procedures Board (SITPRO) and Customs Practitioners Group told us that importers have adjusted their operations to take account of Customs clearing goods in less time than the limits set out in the Charter Standard. If clearance times fluctuate considerably without the Charter Standard limits being breached it could inconvenience importers as they would be uncertain as to when their goods would be released. Customs however do not measure the variations in the typical time it takes them to clear goods at the frontier.
- 17 On the repayment of duty Customs did not meet the Charter Standard in the period 1997-98 to 1999-00. In 1999-00 some 84 per cent of claims were settled within 30 days compared with the target of 90 per cent. Customs' Southeast Collection (one of their regional offices) handles approximately 40 per cent of all repayments, processing more than twice as many claims per staff-year than the Anglia Collection. In 1999-2000, the Collection settled 73 per cent of claims on time. The late settlements are typically paid two weeks after the Charter Standard time limit.



Summary recommendations

- 18** Customs can improve the quality of their customer service by:
- monitoring the variations at each local office for the standard time it takes for staff to clear goods. From this it may be possible for Customs to alter their national targets to give greater certainty to importers over the time to be taken for handling imports;
 - considering whether to redistribute the workload and/or resources for dealing with refunds of overpaid duty so that importers receive payments within the target set in the Charter Standard.

Progress in introducing simplified procedures

- 19** In 1997 Customs introduced new customs freight simplified procedures which allow consignments to enter the United Kingdom with only the minimum information being given on the declaration, and without being stopped by Customs staff at the frontier for fiscal purposes. The importer submits further information at a later date to Customs on all goods imported over the period, and makes payments for the amount of duty on those goods. Customs may subsequently visit the importer to confirm that they are paying the correct amount of duty.
- 20** Take up of the new procedures was initially slower than expected but targets were exceeded in 1999-2000. In 1998-99, the value of goods entering the United Kingdom using the simplified procedures was £13.9 billion compared to the target of £15.1 billion but in 1999-2000, the value of good entered using simplified procedures had risen to £32.3 billion. Customs found that take up of the new procedures was slow because when they were introduced, commercial software was not available which would enable importers to use them. Members of the Automated Customs & International Trade Association (ACITA) told us that when the software became available importers were reluctant to invest in new systems until they had seen how the new procedures worked.



- 21 Before Customs approve an importer to use simplified import procedures, they must check that they have a good record of complying with import requirements and that their accounting systems are adequate for producing accurate supplementary declarations. Our review of Customs' guidance found that it provides staff with advice on the types of risk to the revenue that arise when an importer uses simplified import procedures but that there are some areas where it could be improved. For example in some circumstances staff were uncertain about the depth of checking they needed to carry out on the importers' accounting systems prior to approval. In addition, the guidance currently provided to Customs' staff does not set out in sufficient detail the type of controls that an importer would be expected to operate in order to produce accurate declarations. The risk is that traders will be approved without weaknesses in their accounting systems being identified. At the time of our work it was too early to say whether this had happened, as many traders had only recently been approved and so had not experienced a follow-up audit by Customs. Customs are rewriting the guidance to staff which will provide in depth advice on the checks to be carried out.

Summary recommendations

- 22 To enable traders to take advantage of the opportunities afforded by using simplified procedures and allow staff to facilitate this, Customs can strengthen their approval procedures by:
- ensuring that where appropriate audit teams have documented the key controls and weaknesses in importers' systems before granting approval to simplified procedures, bringing any weaknesses to the attention of the importers and using the results to plan the extent of future audit coverage;
 - preparing and issuing guidance to staff that sets out the key features of a good internal control system which meets the requirements for using simplified procedures.

Part 1

Introduction

- 1.1 In 1999-2000 HM Customs and Excise collected revenue of £20.6 billion from imports from outside the European Community. These imports were valued at some £97 billion accounting for around 48 per cent of the total value of imports into the United Kingdom. As **Figure 1** shows, 72 per cent of the revenues collected were for VAT on imports while 18 per cent were for excise duty on alcohol and tobacco. The remainder came from customs duties. Goods arriving from countries within the European Community are free of regulatory control under the Single European Market. These goods are not declared to Customs at the time of arrival and no duty is usually payable.
- 1.2 Some 7.1 million consignments of goods were imported from outside the European Community, of which around three-quarters pass through airports and the remainder through seaports. For each consignment the importer makes a declaration to Customs on the contents. At the

extremes a consignment could be a small parcel or the cargo of a container ship. **Figure 2** shows that Customs' local offices at Heathrow and Gatwick airports dealt with nearly one third of all consignments in 1999-2000. Felixstowe was the busiest local office at a seaport, dealing with around five per cent of consignments. About 80,000 separate importers ranging from major international companies to private individuals import goods. Of these, some 250 importers are responsible for just over half the value of all imports from outside the European Community.

Customs' objectives for regulating freight imports from outside the European Community

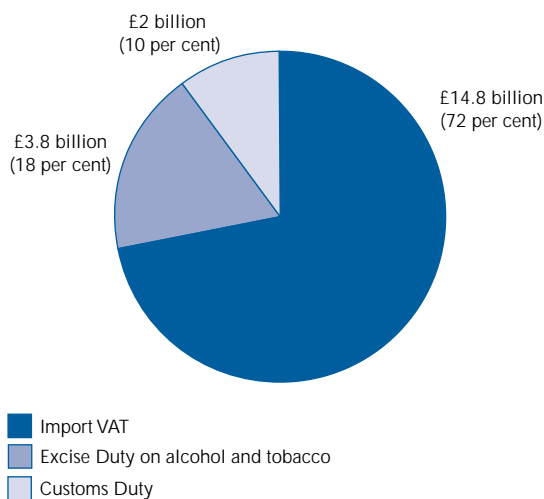
- 1.3 Customs' objectives for regulating freight imports from outside the European Community are to:
- collect the correct amount of duties;
 - secure compliance with statutory, European Community and international customs obligations;
 - minimise the burden on compliant businesses.

The ways in which Customs regulate freight imports

- 1.4 Customs operate two methods to regulate consignments imported into the United Kingdom - the traditional method and the Customs Freight Simplified Procedures as shown in **Figure 3**.
- 1.5 European law requires member states to offer importers access to simplified procedures and since 1997 Customs have been encouraging importers to adopt these. Importers must apply to Customs to use these procedures, and they must be satisfied that the importer has the correct systems to communicate with Customs electronically, and that there are no grounds for believing that the importer will abuse the facility.

1 The revenue collected by Customs on imports in 1999-2000

Revenue collected on imports from outside the European Community totalled £20.6 billion in 1999-2000.

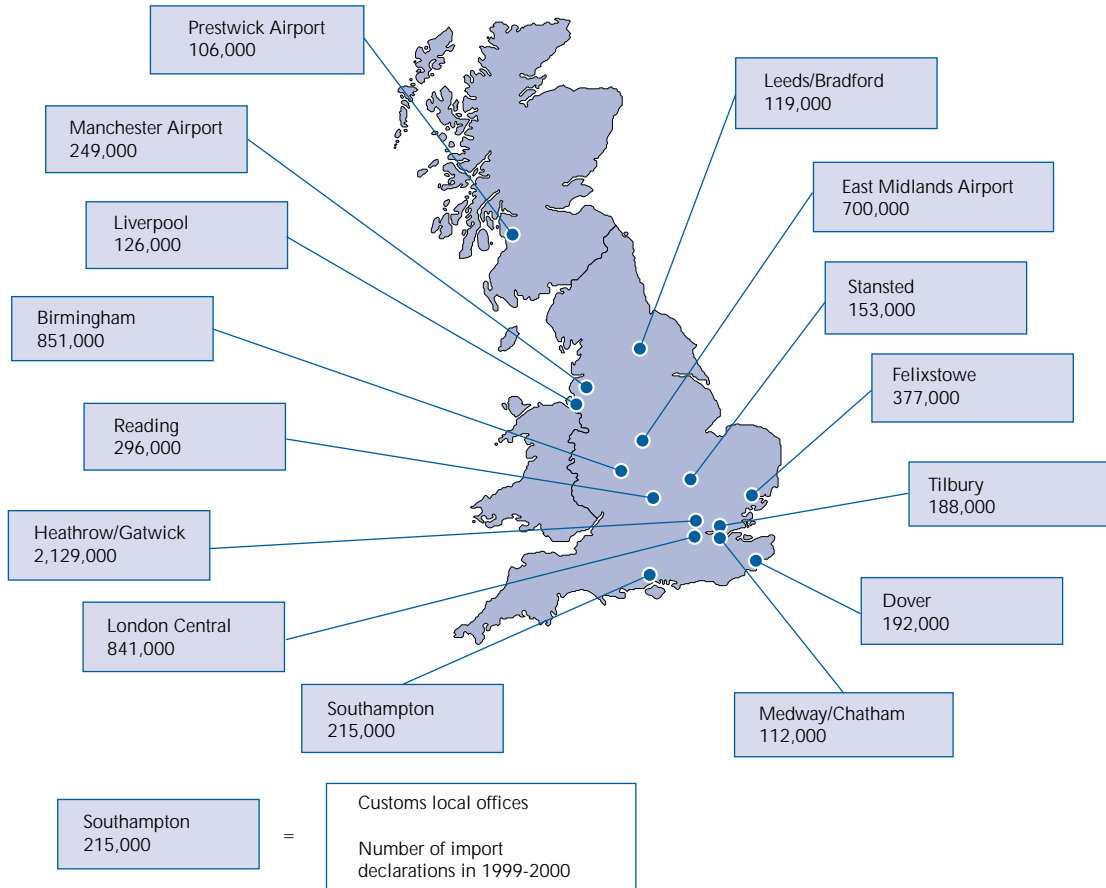


Note: The revenue collected from customs duty is paid over to the European Commission less 10 per cent retained by the UK to cover administration costs.

Source: HM Customs and Excise

2 Map showing Customs' 15 busiest local offices in terms of number of consignments imported from outside the European Community in 1999-2000

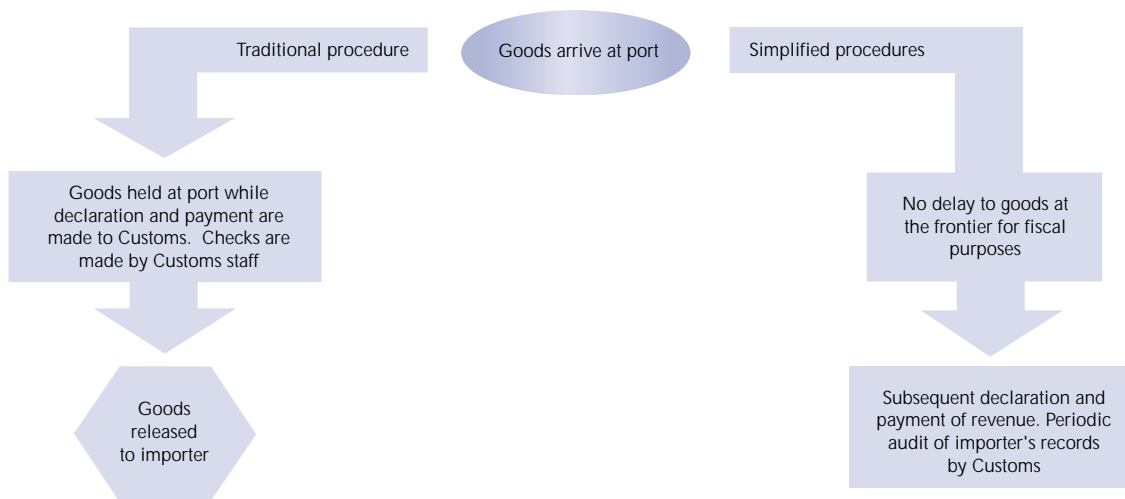
In 1999-2000 Customs 15 busiest local offices dealt with 6.7 million consignments from outside the European Community representing 93 per cent of the total number of consignments. Customs local offices at Heathrow/ Gatwick airports dealt with the largest number of consignments



Source: HM Customs and Excise

3 The two methods by which Customs regulate freight imports

The figure shows that the majority of imports are now processed through the simplified procedures and that Customs exceeded their target for the percentage of consignments using the procedures.



1999-2000: Target
Outturn

40 per cent of consignments by number
53 per cent of consignments by number

Source: National Audit Office

1.6 The new simplified procedures replace the "Period Entry" system that is used by some 210 importers and which will be phased out by July 2001. "Period Entry" is similar to the new procedures, but the latter offers a better facility for importers to transfer information electronically to Customs.

The checks Customs carry out on freight imports

1.7 To ensure that the correct amount of duty has been paid Customs check a proportion of declarations by importers. This may involve Customs in assessing, among other things, whether the importer has correctly classified the goods; that the country of origin is stated correctly and the goods are valued accurately.

Classification, origin and valuation of goods

Classification - Goods imported to the United Kingdom are classified according to the definitions set out in the European Community publications which also list the range of duty rates that apply in each case. For example the classification for Alsace wine is different from the classification for wine from Bordeaux. The rates of duty apply across all the member states of the European Community and the importer may ask Customs to provide a legally binding decision on how the goods should be classified.

Origin - For some types of import, the rate of duty will be lower if the goods originate from a country with which the European Community has a preferential trade agreement. For example customs duty is normally payable on porcelain figurines imported to the United Kingdom but no duty is payable if the figurine is produced, in Bulgaria or Switzerland, in accordance with the relevant European Community rules on place of origin.

Valuation - Customs issue public notices on the methods for valuing goods. In most cases, the goods are valued at their import price, plus an additional sum for transportation costs and insurance. Some products such as fruit and vegetables however may be valued by weight.

1.8 Customs also carry out statutory checks on imports which may be undertaken on behalf of other government departments and agencies. Statutory checks are carried out because there are legal restrictions on the importation of certain goods. Some examples are set out in **Figure 4** and a full list is at Appendix A. In all cases where restrictions apply, Customs ensure that the importer has complied with the requirements. Where Customs carry out checks on behalf of other government departments and agencies there are agreed procedures covering their respective responsibilities.

How Customs are organised

1.9 Four Customs' headquarters Directorates are responsible for setting the policy guidelines for controlling the import of goods into the United Kingdom. Thirteen regional offices or "collections", are responsible for carrying out the checks on imports (**Figure 5**). In 1999-2000 Customs had the equivalent of 1,060 staff involved in the regulation of imports at an estimated cost of £18 million.

What we did and how we did it

1.10 Against this background we examined:

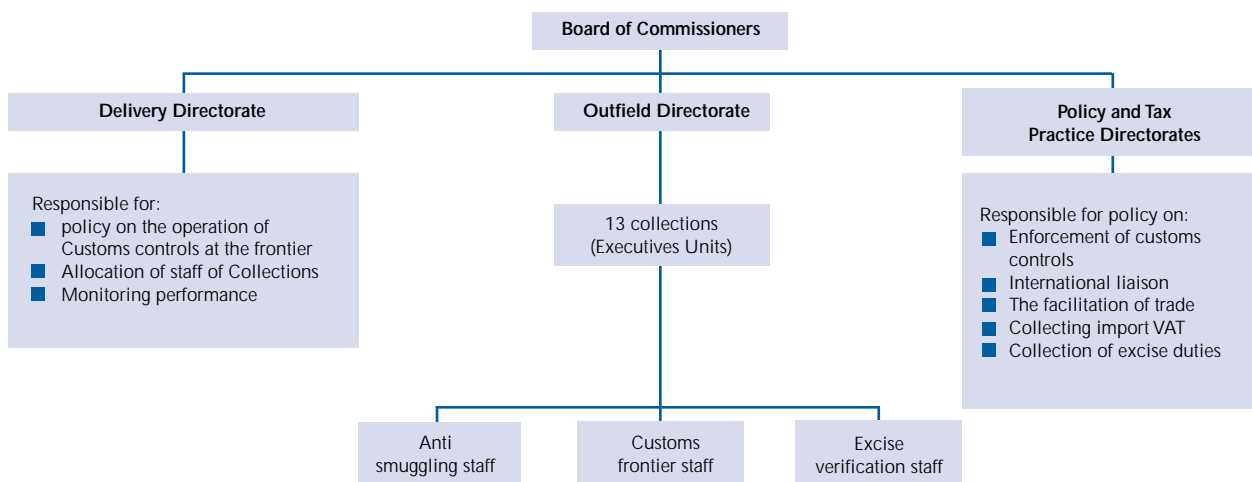
- Customs management of the risks at the frontier (Part 2). We focused on Customs' controls over freight imports from outside the European Community using the traditional method where importers declare the goods at the frontier.

4 Examples of some of the checks HM Customs and Excise carry out on consignments on behalf of other government departments and agencies

Example of statutory requirements	What Customs do for other agencies
Import restrictions or quotas on goods	Customs officers check that importers have provided valid licences issued by the Department of Trade and Industry. They endorse the licence and return it to either the importer, the Department of Trade and Industry or other government departments
Forestry controls	Importers of certain timber products obtain a certificate of clearance from the Forestry Commission. Customs check that these products do not leave the port without a valid certificate of clearance.
Health requirements	Importers of certain animal products obtain a health certificate from port health officials. Customs check that these products do not leave the port without a valid Certificate of Veterinary Clearance.

Source: HM Customs and Excise

5 Customs' policy and line management responsibility for the regulation of freight imports



Source: National Audit Office

- How Customs seek to minimise the burden of compliance on importers (Part 3). We looked at Customs' performance against the Charter Standards for goods imported from outside the European Community and Customs progress in encouraging importers to use the new customs freight simplified procedures.

1.11 We have published four reports on aspects of Customs' responsibilities for dealing with imports and smuggling.

Previous reports published by us that have examined other aspects of Customs' responsibilities for dealing with imports and smuggling

"The Red Channel" (HC 358 Session 1998-99) examined Customs' controls over the revenue collected from goods imported in passengers' baggage. This revenue represents around 4 per cent of the total revenue from imports.

"The Reform of Customs Transit in the European Community" (HC 566 Session 1997-98) examined the implications of recommendations made by the European Parliament and the Commission to reform Customs Transit procedures, and the extent to which the United Kingdom had contributed to its reform.

"The Prevention of Drug Smuggling" (HC 854 Session 1997-98) examined the contribution made by HM Customs and Excise to tackling the problem of drug misuse in the United Kingdom.

Our annual report on Customs accounts of revenue* examined amongst other things Customs' controls to prevent and detect Cross Channel Smuggling.

1.12 Details of our methodology are set out in Appendix B. In summary we:

- reviewed Customs' performance measures concerned with the quality of checking undertaken by frontier staff, and the speed with which declared goods were released to importers;
- visited relevant headquarters branches, and Customs' local offices at eight of the busiest ports to discuss the regulation of imports at the frontier. We examined the systems in place for assessing and managing risks posed by imports; approving importers to use simplified procedures; and working with other government departments;
- held additional interviews at four of the ports visited with staff of agencies that work alongside the Customs' staff at the frontier. We also interviewed headquarters staff in departments on whose behalf Customs apply controls at the frontier;
- sought the views of four representative trade bodies about the nature of Customs' service, and held follow-up meetings with three of them; and
- took account of Customs' Internal Audit work which looked at aspects of Customs controls over freight imports.

* Appropriation Accounts 1998-99, Volume 16: Class XVI Departments of the Chancellor of the Exchequer

Part 2

Managing the risks at the frontier

2.1 Customs are responsible for checking declarations to ensure that the correct amount of duty has been paid and that statutory requirements have been complied with. The key risks that Customs aim to counter through their checks are set out below.

.....

The main risks which Customs' checks aim to identify

Category	Risks that:
The main risks to collecting the correct amount of revenue	■ Goods are incorrectly valued
	■ Goods are not described correctly, in order to reduce the amount of duties that need to be paid
	■ Incorrect tariff classification entered on the declaration
	■ Arithmetical errors in calculating the amount of duty
The main non-revenue-risks	■ Breaches of import restrictions
	■ Infringement of Intellectual Property Rights: counterfeit and pirated goods.
	■ Failure to adhere to health requirements.

.....

2.2 In this Part of the report we looked at whether Customs:

- have developed appropriate strategies for countering the risks to the revenue;
- are able to select declarations for in depth checking based on the risks to the revenue;
- carry out the checks on the declarations selected;
- disseminated information on the risks to the revenue and whether this is acted upon;
- set appropriate targets to measure performance;
- encourage importers to submit correct declarations;
- carry out statutory checks efficiently, given that these receive priority.

Customs' local offices could improve further their strategies for countering the risks to the revenue

2.3 The risks to the revenue from errors made by importers on their declaration can change. We looked therefore at whether Customs local offices have a strategy for checking consignments which keeps abreast of shifts in the pattern of errors. Such a strategy should consist of the following steps:

- identifying the risks to the revenue;
- assessing the risks according to the likelihood of the duty being underpaid and by how much it is likely to be underpaid;
- using the results to design a system of checking which is matched to the risks. Checks should be carried out on a range of declarations that represent high, medium and low risk but with a higher percentage of declarations selected for checking from the higher risk categories. A well designed system of checks will test the full range of risk and assist in detecting changes in the type, frequency and severity of risks from which the checks can be further fine tuned.

2.4 Of the eight Customs local offices visited, three local offices (responsible for processing almost 50 per cent of all declarations) analyse the risks to the revenue from freight imports, and have put a plan in place to test those risks over a period of time. At the other local offices, tests are based on the judgement of individual officers or teams of where the errors are most likely to be found. Customs' staff who manage the control of freight imports at these locations decide which declarations to select for checking by monitoring the performance of their existing profiles in detecting errors and continue to use a profile as long as it leads to errors being detected. The weakness with this approach is that it limits the checking to areas where errors are currently found rather than anticipating changes in the risk as these occur. **Figure 6** sets out the process by which Customs select declarations for

checking using "profiles" with a more detailed outline of the procedures at Appendix C.

- 2.5 The recording and analysis of the results of local office checks could be also improved to help inform and influence their future checks. This is because an individual declaration may be selected because it matches a number of profiles set by Customs' staff and it may not be clear which of the profiles led to the error being detected. Profiles are set to detect possible errors (for example, the under-valuation of a consignment) but when Customs' staff check the consignment a different type of error may be detected (for example, an incorrect tariff coding). In 1999-00 Customs profiles resulted in 1.2 million matches with declarations, of which 785,000 were selected for checking, because a large number of the declarations matched more than one profile.

Customs are able to identify those declarations that need to be checked, but improvements could be made to their systems.

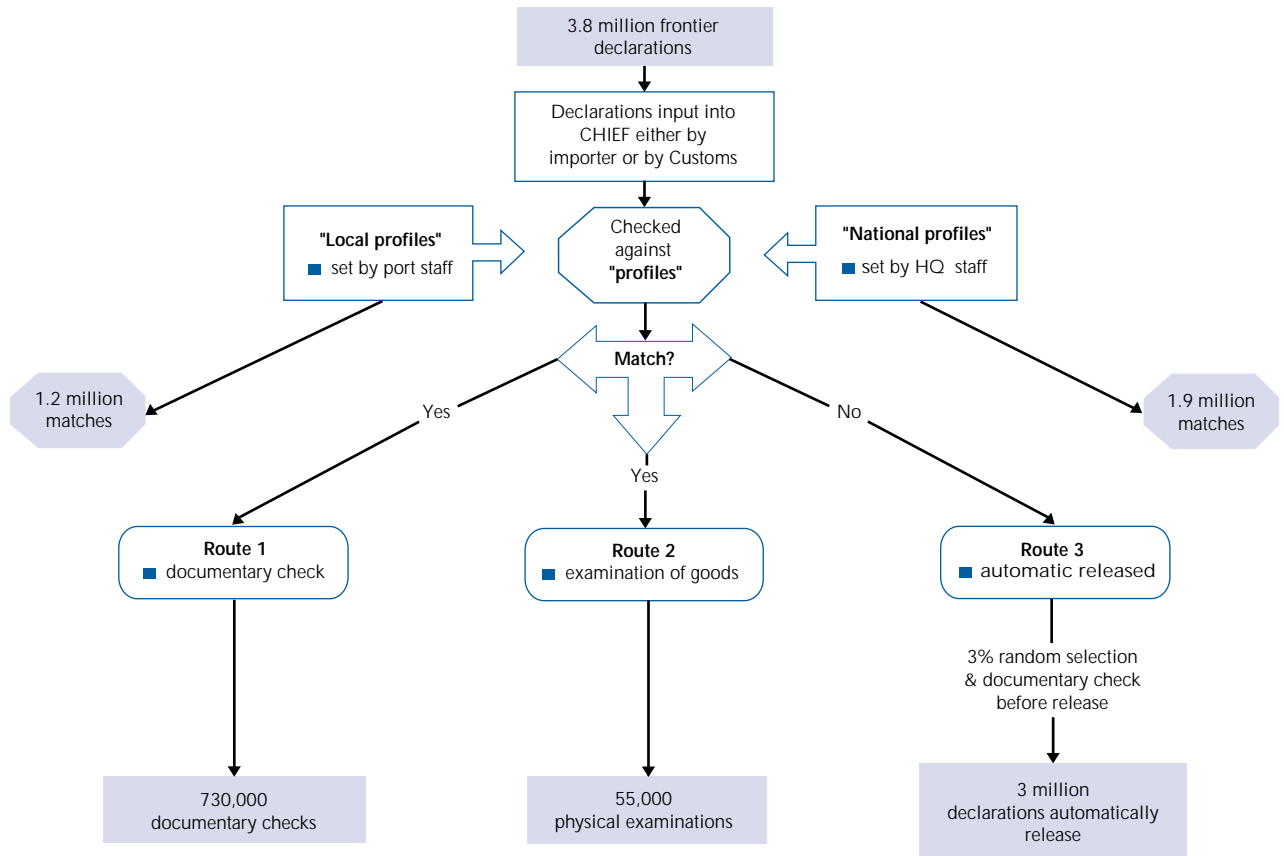
- 2.6 We confirmed that through the use of profiles Customs' staff are able to select with sufficient accuracy those declarations which need to be checked for statutory purposes using the national profiles (Figure 6). This is because the characteristics of such declarations can be defined precisely using the information held on the system. But we found that the CHIEF's systems capabilities are more limited in helping Customs' staff select those declarations that present risks to the revenue. For example the system does not allow Customs' staff to allocate weightings/ scores to individual elements of a profile or set overall scores for a profile which would cause a declaration to be selected. To do this type of analysis would require changes to Customs' computer systems which they do not consider would be cost effective because they plan to replace the CHIEF system by January 2004. In designing the new system Customs will therefore have an opportunity to improve the way in which declarations are selected for checking.

Customs need to ensure that checks are carried out on the declarations selected

- 2.7 If Customs' checks on declarations are to be effective, their staff need clear guidance on the types of checks that should be carried out so that sufficient assurance can be gained on the accuracy of the declarations made by importers. Having selected declarations, the local offices should carry out the checks to confirm that they are correct. Managers should then re-perform a sample of the checks to ensure that these have been carried out in the way intended.

- 2.8 We found that Customs have not set a formal standard on the depth or thoroughness to which checks should be carried out. It is nevertheless, the general practice at the locations we visited, for staff to undertake a range of standard checks on the entries selected, in addition to any specific checks required by the profile. Examples of standard checks include confirming arithmetic calculations, that the tariff code quoted matched the description of the consignments, and that the correct currency has been used to value the goods.
- 2.9 At only three of the eight local offices visited did we find that managers routinely re-perform a sample of their staffs' checks to test the quality of the work undertaken. For the other local offices managers monitor the performance of their staff by keeping records of the number of errors found by individuals which gives only limited assurance as to the quality of the checks carried out. At these locations managers told us that the complexity of declarations makes it time-consuming to re-perform checks to confirm their correctness and supporting documents (such as import licences) are often detached from the papers and returned to the importer immediately, making full re-performance of the checks impossible.
- 2.10 At the locations visited we also found that the amount of time available for checking each declaration varies according to the number of staff available and the number of declarations selected for checking. Customs' aim is to set shift patterns so that staff numbers align to the traffic flows through the port, but we observed that there are times when both do not match. When a local office is particularly busy or staff are unexpectedly absent, too many checks can be generated and the depth and thoroughness of checking is reduced in order to deal with the workload. In these circumstances, some staff release the consignments immediately and check the papers later, while others may release the goods with no further checks.
- 2.11 From Customs' computer records we were unable to identify how often the consignments selected for checking may be released without any checks being carried out. Such data would enable Customs to identify those offices that are regularly generating too many declarations for checking which may indicate that their profiles need to be refined further to focus on the declarations where the risks are higher. A strategy for checking consignments which meets good practice (paragraph 2.3) is based on the assumption that the selected declarations are checked. If no errors are found because declarations are not checked (rather than because they are checked and found to be correct) false conclusions may be drawn about the success of the strategy. When the CHIEF computer system is replaced in 2004, Customs intend to record the details of the consignments selected for checking but which are released without the checks carried out.

6 The selection of declarations for checking prior to their release from the port



Source: National Audit Office



Customs use "profiles" or characteristics which are set on their computer system, known as Customs Handling of Import and Export Freight (CHIEF). If a match with a profile is found, CHIEF will automatically flag to both Customs and the importer that the goods cannot be released until specified checks have been undertaken. Profiles can be set to select all or a proportion of declarations matching them. If a declaration does not match any profile, or if it matches but is not selected, the goods are automatically released a short period after the importer has lodged the written declaration with Customs.

Local office profiles are set to select the declarations that Customs choose to check, because of the possibility that they might contain an error, intentional or otherwise. Typical errors that Customs look for include: misdescription of the goods or an incorrect tariff coding, incorrect arithmetic calculations, or incorrect valuation. For example a profile could be designed to select all consignments of computers from the USA which have a value of more than £10,000 each.

National profiles are set to address the risks that have national application and also to identify the declarations Customs must check for statutory purposes (for example, imports of plants or seeds requiring a health certificate, where there is a legal requirement to submit them to Customs).

Information disseminated throughout Customs on the risks posed by freight imports is not always acted upon

2.12 The risks that affect one local office could affect others.

We looked at whether this type of information is disseminated throughout Customs and where appropriate local offices act on the information by carrying out checks aimed at detecting those types of errors.

2.13 Customs disseminate information on risks posed by freight imports and the types of errors that occur by:

- Inter-local office meetings held on a regular basis between all local offices of a similar type (for example, air ports or sea ports), and between local offices in the same part of the country;
- Customs National Freight Intelligence Unit collating errors detected in freight declarations, and disseminating the results to staff at ports. Intelligence of immediate relevance is sent to staff via a regular bulletin, while in depth analyses of particular types of traffic are contained in occasional reports.

2.14 We found that Customs' staff do not regularly review the intelligence, provided by the National Freight Intelligence Unit on the types of errors that are causing a problem nationally and have not as a matter of course incorporated the Unit's findings into their checking activity. Customs' staff told us that this is because the relevance and value of the Unit's reports to their circumstances varied from very useful to not relevant. Where Customs staff have carried out checks as a result of the Unit's intelligence, there are no records of the results from which it would be possible to assess the value of the information provided by the Unit.

2.15 The Unit has however occasionally sought feedback from local offices on the value of its work. The results show that some £950,000 revenue has been recovered as a result of local offices acting on 39 intelligence reports, and recovery of a further £5 million was either pending, or under appeal. The Unit has not however, ascertained what information would be most useful to local offices in detecting errors and the format it should use to present information which would help local offices in setting profiles. During the course of our work, Customs reviewed the role and function of the Unit which confirmed that there are weaknesses in the way the work is carried out and they are taking action on the results.

Customs proposed improvements to their performance measures will give a better indication of the level of compliance amongst importers

2.16 To assess whether their checks have focused on declarations which present the highest risks to the revenue Customs use two measures:

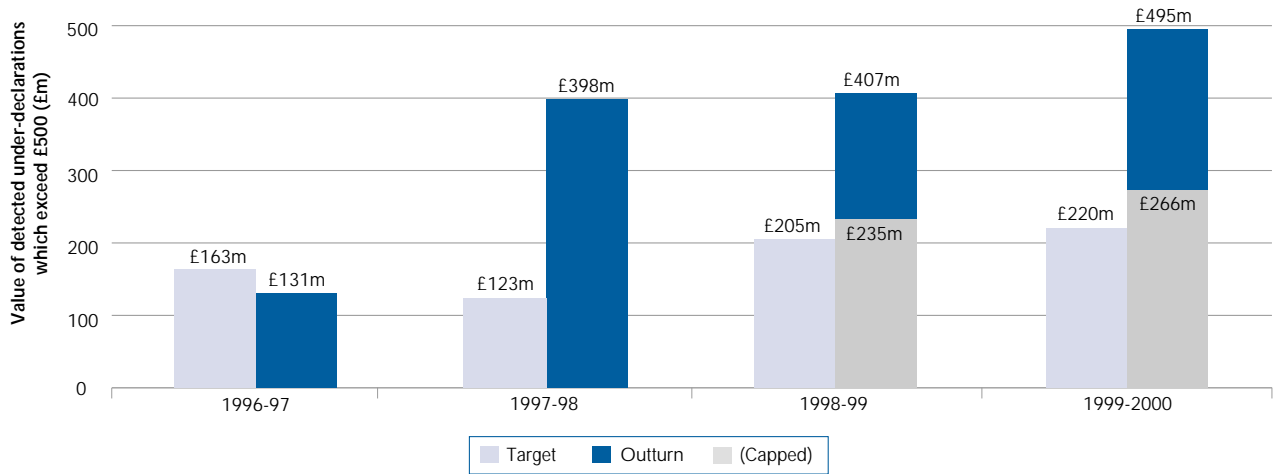
- The value of under-declarations of duty detected over £500;
- The number of irregularities found per 1,000 declarations checked.

2.17 **Figure 7a** shows that in the period 1996-97 to 1999-00 the value of underdeclarations detected by Customs increased by £364 million from £131 million to £495 million or over 275 per cent. From 1998-99 Customs introduced a new performance measure which excludes distortions caused by unusually large errors ie those with a value of more than £2.5 million each. This change had the effect of reducing the value of underdeclarations which counted towards the target. Of the underdeclarations detected in 1998-99 £235 million of the total of £407 million counted towards the new measure and in 1999-00 £266 million out of £495 million counted. Customs cannot adjust their data for earlier years on the revised basis and as a result it is only possible to compare their performance over the period using the old method of calculation.

2.18 In 1998-99 Customs also changed the basis of calculating the number of irregularities found per 1,000 declarations checked. Since then the number of irregularities found per 1,000 declarations checked fell 20 per cent from 13.8 to 11 (**Figure 7b**). Again Customs cannot adjust their data for earlier years so that performance could be compared across the period.

2.19 These data suggest that the Customs' risk based approach to selecting and checking declarations has been successful. It is possible however, that these results are due to an overall increase in the value of errors made by importers or a combination of the two.

7a The value of under-declarations of duty detected by Customs' staff which exceed £500 during the period 1996-97 to 1999-2000

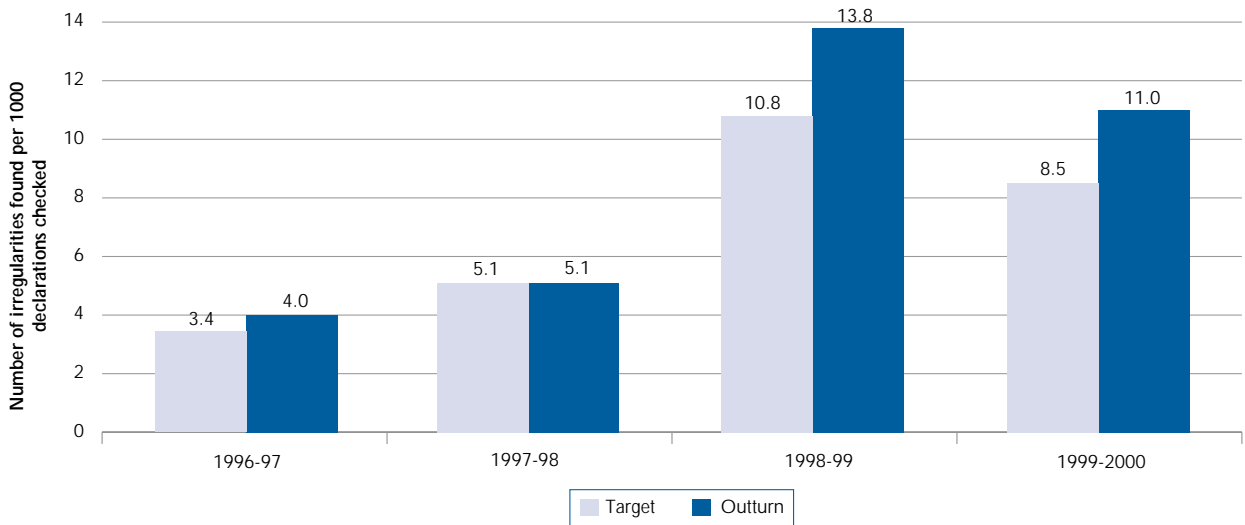


Note: The performance measure was changed in 1998-99 to include a cap on any detected under-declarations with a value of more than £2.5 million. Customs have not been able to adjust the figures for earlier years on the same basis.

All figures adjusted to 1999-2000 values

Source: National Audit Office

7b The number of irregularities found per 1000 declarations checked during the period 1996-97 to 1999-2000



Note: The target and outturn increased in 1998-99 because of revisions to the way the indicator is calculated are not directly comparable with earlier years.

Source: HM Customs & Excise

2.20 Customs recognised that to be able to assess their performance they also needed valid and reliable estimates of the overall compliance levels among importers. With this in mind Customs from 1 April 2000 are selecting a sample of declarations at random and checking them. They were initially concerned, however, that such an exercise would require a lot of resources, but our calculations showed that a sample of around 5000 declarations would be suitable for this purpose. Based on the results of the checks Customs have set a target for the period 2001 to 2004 to deliver year on year improvements on the level of compliance of businesses engaged in international trade.

Customs are looking to encourage importers to submit correct declarations

2.21 Making a false declaration to Customs about consignments imported into the United Kingdom is a criminal offence and Customs do not have to prove dishonest intent. Customs are able to exercise discretion, however, and prosecution or financial penalties are reserved for the most serious breaches where fraud or culpable negligence are evident. Where errors are made Customs recover the revenue underpaid and charge an administrative "restoration fee", to reimburse their costs and act as an incentive to submit correct declarations. In 1998-99, Customs imposed penalties totalling around £900,000 and administrative charges totalled some £700,000.

2.22 To help importers and their agents make correct declarations, Customs provide a range of information such as in leaflets and through education visits and are developing further support and advice including a good practice guide. At all of the local offices visited however, staff told us that there is too little incentive for importers and their agents to submit accurate declarations, as it is more economical for them persistently to incur minor penalties than to invest in the staff, skills or systems necessary to prevent errors occurring. All local offices use methods to improve compliance such as holding meetings to discuss how to resolve problems with importers and their agents who repeatedly make errors. But we noted examples of particularly good practice at four of the eight local offices visited, where managers use a graduated scale of fees charged for correcting minor culpable errors, so that repeated mistakes became progressively more expensive for the importer and their agents.

2.23 Two of the four local offices have gone further, and adopted "compliance strategies" which include actions to reduce the overall number of errors in declarations. Two other local offices are in the process of adopting similar approaches. The key elements of these strategies are:

- a) monitoring the performance of importers and their agents in terms of the number of errors made and their response to queries from Customs, and then rating them as high, medium or low risk; and
- b) implementing a programme of visits to importers and their agents to give advice or education, based on their risk rating, in conjunction with (at one local office) a telephone advice service.

Customs need to ensure that statutory checks or those for other government departments are carried out efficiently

2.24 As well as checks to ensure that the correct amount of duty has been paid Customs also carry out statutory checks and checks for other government departments. Because local offices need to carry out checks on all declarations where statutory requirements apply or which are required for government departments, they need to do these checks efficiently to ensure that they have sufficient time available to carry out the risk based work on the revenue.

2.25 We found that it was not possible to analyse for each local office the percentage of checks that are carried out for statutory purposes/other government departments and those carried out to ensure that the correct amount of duty is paid because the information is not held in this way in Customs computer records. In the absence of this information Customs are unable to assess accurately whether individual offices are devoting sufficient effort to checking whether the correct amount of duty is paid.

2.26 We also tried to establish the number of checks Customs carried out in 1999-00 for each type of statutory check but found that it was only possible to analyse a part of Customs' data because of difficulties in being able to identify the relevant data from their computer records. These data showed that the statutory checks were mainly carried out to meet European Community requirements (Figure 8). By analysing the data regularly in this way Customs would be able to identify those checks that are taking most of their time because of the numbers and types of checks involved and could then look into whether the checks could be performed more efficiently.

2.27 In the case of import licensing checks, representing 27 per cent of the checks in **Figure 8**, we found that there is little opportunity for Customs to carry out the checks more efficiently because the numbers should reduce substantially in the future. This is because members of the World Trade Organisation have agreed to remove bilateral quotas on textile imports by 2005 which will mean that import licences are no longer required. The reduction in the number of import licences will be even greater if, as expected, the Peoples Republic of China joins the World Trade Organisation before 2004.

2.28 From our visits to Collections, however, we identified examples of good practices that have resulted in the procedures for checking consignments becoming more streamlined such as by sharing information with local trading standards officers and other public sector organisations on consignments. Working closely with other departments and agencies, Customs could explore other opportunities for streamlining procedures. Customs are now taking this work forward.

Sharing information with the Ministry of Agriculture Fisheries and Food on the importation of plant material

In August 2000, an electronic link was set up between the Customs computer system and the Ministry of Agriculture Fisheries and Food with the aim of improving and strengthening the controls over imported plant material. The link sends details of individual consignments to the system operated by the Ministry of Agriculture Fisheries and Food which then runs its own checks as a result of which it can ask Customs to hold a consignment for inspection or to release it. This approach:

- Saves staff time in both departments by eliminating routine telephone or fax consultations;
- Improves customer service to importers; and
- Provides the Ministry of Agriculture Fisheries and Food with data to develop its own risk based approach to controlling imports.

8 Analysis of checks undertaken for statutory reasons or for other government departments

Three quarters of mandatory checks are undertaken to comply with European Community legislation.

Reason for checks	Number of checks	Percent of all required checks
European Community Customs legislation (excluding import licensing)	436,318	48%
European Community import licensing 1	241,100	27%
Intervention Board: Common Agriculture Policy	61,617	7%
Ministry of Agriculture Fisheries and Food: Animal health	47,896	5%
Ministry of Agriculture Fisheries and Food: Plant health	40,039	4%
Home Office: Licensed drugs	27,182	3%
Forestry Commission	19,972	2%
Intellectual Property Rights: Trade mark infringement	19,476	2%
Ministry of Agriculture Fisheries and Food: Other	12,838	1%
Total	906,438	100%

Note: Licenses issued by the Department of Trade & Industry acting as the UK member state licensing authority.

Source: NAO analysis of Customs data

Recommendations

2.29 Customs should further develop their risk management systems to make their checks on declarations more effective. Specifically Customs should ensure that:

- a) all local offices have a plan in place to identify and analyse the risks to the revenue and the service to traders, and test those risks;
- b) when their computer systems are replaced in 2004, they should consider introducing enhancements that will record details of those declarations selected for checking but which are not because of pressure to release consignments;
- c) when designing the new computer system, the opportunity is taken to improve the way in which declarations are selected for checking. In particular, Customs should consider adding facilities that would allow local offices to allocate weightings/scores to individual elements of a profile or set overall scores for a profile which would cause a declaration to be selected.

2.30 Customs should focus more closely on their objective of securing compliance of importers and their agents to pay the correct amount of duties by:

- a) carrying out the random sampling exercise in 2000-01 and using the results as a basis for setting targets to increase importers and their agents compliance;
- b) using more widely practices which encourage importers and their agents to improve the accuracy of declarations;
- c) looking at how they can ensure that good practice is disseminated throughout the organisation more effectively.

2.31 Customs should aim to carry out the statutory checks more efficiently so resources are released for other work by:

- a) analysing the amount and type of work they perform for statutory purposes to identify the areas where there may be opportunities to carry out the work more efficiently;
- b) exploring opportunities to streamline and make more efficient the system of checks carried out by Customs such as by promulgating good practice;
- c) carrying out research to determine whether at some offices the work on statutory checks is reducing the scope for them to carry out checks on the revenue, and if this is the case to redistribute resources accordingly.

2.32 Customs can improve their use of information which helps to target those declarations that need to be checked by:

- a) taking the opportunity to improve the way in which staff are able to interrogate the data on declarations when designing the replacement for the CHIEF computer system;
- b) making more effective use of intelligence so that it meets local offices' requirements for information on the risks posed by freight imports;
- c) evaluating the impact of the intelligence units' work by tracking the action taken by local offices on the data.

2.33 Customs can improve the quality of their checks on declarations by issuing guidance:

- a) on the types of checks local offices should carry out on declarations;
- b) requiring managers to re-perform a sample of the checks carried out on declarations by their staff and advising on how the checks should be carried out.

Part 3

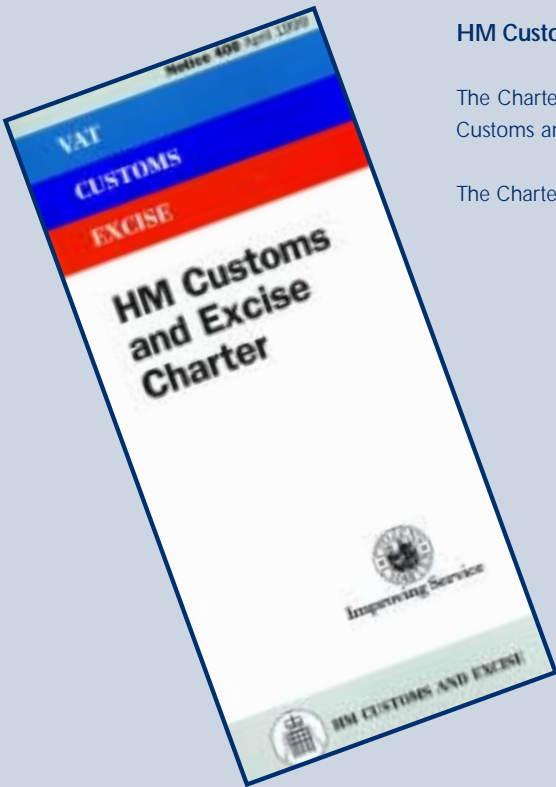
Minimising the burden on importers

3.1 This Part of the report examines:

- Customs' performance against key aspects of the Charter Standards which set out the level of service that importers can expect from Customs; and
- Customs' progress in encouraging importers to use customs freight simplified procedures. Since 1997 Customs have encouraged importers to use the new simplified procedures in order to support the move from checking consignments at the frontier to systems based audits at the traders premises.

Customs performance against the Charter Standards has been mixed

3.2 Customs have Charter Standards and targets which have been in place since April 1996 (see box). The Charter includes Customs commitments on how they will deal with imports into the United Kingdom.



HM Customs and Excise: Charter Standards

The Charter sets out the standards of service that traders can expect from Customs and what Customs requires from traders to do their work.

The Charter covers:

- Customs commitment to traders if those traders telephone, write or visit Customs;
- The standards that Customs undertake to meet if they visit traders to ensure taxes and duties are being accounted for correctly or to ensure that statutory restrictions are being complied with:
 - Commitments about the provision of information to traders;
 - Standards applicable to specific work areas including VAT, Customs and Excise duties;
 - Appeal and complaint procedures.



3.3 Key aspects of the standards concerned with the level of service provided to importers are:

- how quickly Customs will carry out their checks on consignments;
- the time it will take Customs to refund to importers overpayments of duty; and
- compensation which Customs will pay to importers if they damage goods during the course of their examination.

We examined Customs' performance against these standards in the four years from 1996-97 to 1999-2000.

Customs check consignments within target times but these targets could be more challenging and be set to provide greater certainty for importers

3.4 Importers need to plan the onward movement of their goods and to be able to do so they need a degree of certainty about the length of time Customs' will take to check consignments. To meet importers' requirements, the Charter Standards includes targets on the length of time Customs will take to release consignments depending on the type of checks that are carried out (**Figure 9**). The standards are the minimum levels of service that importers can expect from Customs and only apply where the importer submits complete and correct documents to the Customs' staff at the frontier.

3.5 From our visits to local offices we noted that there is a high level of awareness among Customs' staff on the need to meet the Charter Standards and that they take steps to ensure that the targets are achieved. Our analysis of Customs' performance against the standard in each of the four years 1996-97 to 1999-2000 shows that the targets have been exceeded (**Figure 10**). Further analysis of the data shows that 10 of Customs' 13 collections have released consistently at least 95 per cent of consignments within the time limits, which is well above the target.

9 The Charter Standards on the length of time Customs will take to carry out their checks

Where, on presentation, importers' customs declaration is complete and correct, Customs overall aim is to release at least 90 per cent of consignments:

Time limit	Category of import
within 4 working hours	for electronic declarations processed by the CHIEF system
within 12 working hours	for documents selected for additional documentary checks
within 24 working hours	for declarations selected for documentary checks and produced for physical examination

Source: HM Customs and Excise

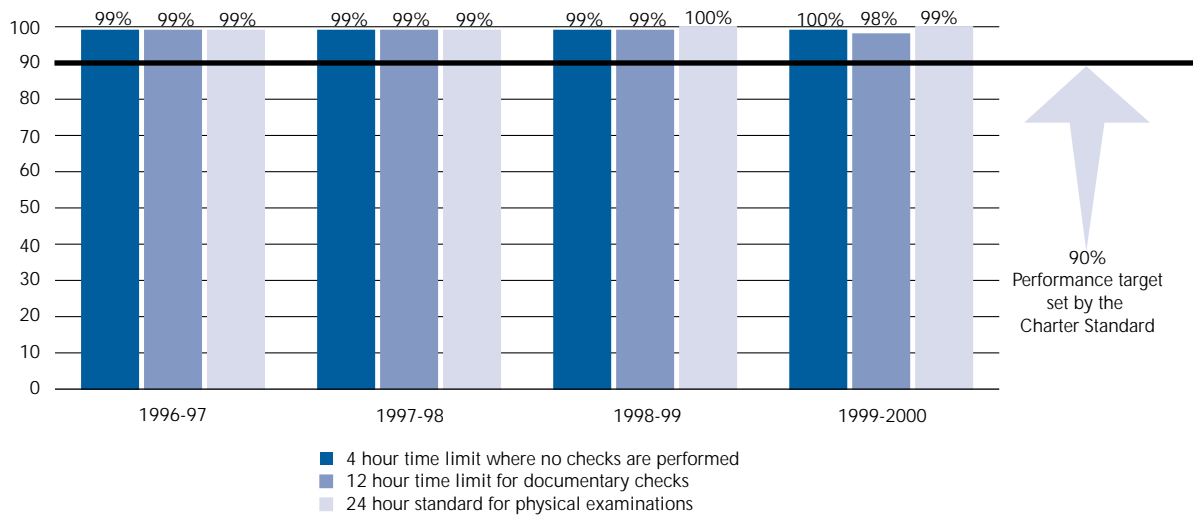
3.6 Two of the trade representative groups we consulted (The Simplified Trade Procedures Board (SITPRO) and the Customs Practitioner Group) told us that importers have adapted their operations to the higher levels of performance currently achieved by Customs and make their transport arrangements to transfer consignments inland accordingly. For example **Figure 11** shows the time it took Customs to clear a sample of 95 declarations that required documentary checks at one port for one month in 1998-99. In the example 98 per cent of the consignments that required documentary checks were cleared well within the twelve hour time limit, with the average time taken amounting to 4.8 hours for all declarations in that month. If every declaration in Figure 11 had taken one hour longer to clear, this would have increased average clearance times

by 20 per cent but performance against the standard would fall by just one percentage point, to 97 per cent which is still well above the minimum standard.

3.7 A decrease in performance to the minimum levels set out in the standard could therefore inconvenience importers. Customs do not regularly monitor the variations in the time it takes them to clear consignments at the frontier, although they do however have arrangements to clear consignments quickly where they have been previously notified of the need to do so by the importer.

10 Percentage of imports that are released by Customs within time limits set out in the Charter Standard

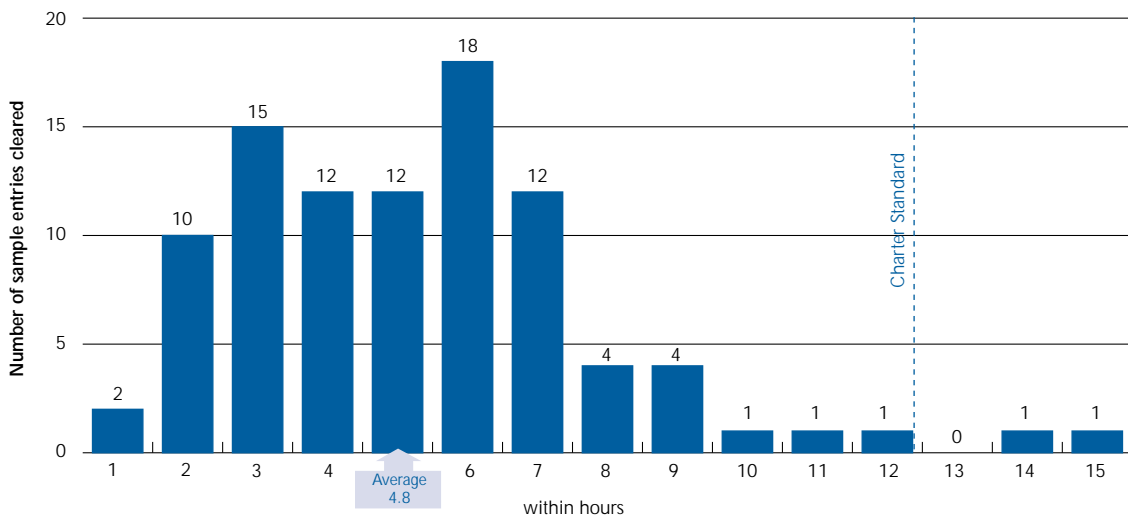
Customs have released almost all imports within Charter Standard time limits during the last four years.



Source: HM Customs & Excise

11 Example of performance at one port against 12-hour charter standard for speed of service

Of the 95 consignments in the sample at this port most were cleared more quickly than the Charter Standard time-limit.



Source: NAO analysis

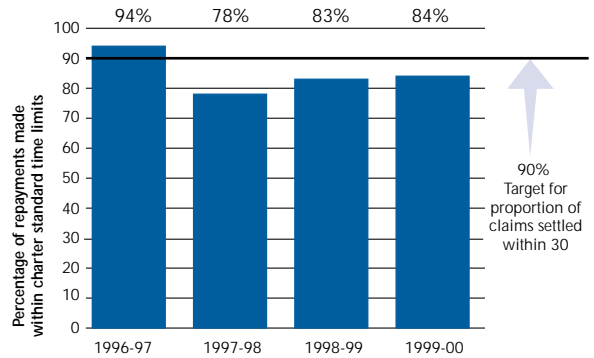
3.8 On the basis of Customs' performance against the Charter Standard we concluded that there may be scope for Customs to tighten their current standards and targets. For example Customs might consider reducing the 12 hour standard for documentary checks to 9 hours and set the target to complete their checks within the time limit for 95 per cent of declarations. In deciding whether to tighten the standards and targets Customs would need to consider whether there are any resource implications. They are also concerned that quicker clearance times for consignments at the frontier could slow the take-up of simplified procedures because the benefits would not be so apparent.

Customs have not met their target for the amount of time they take to refund overpaid duty

3.9 Before the consignment is removed from the port, the importer has to make payment to Customs for the amount of duty on the goods. If the duty has been calculated incorrectly the importer can claim a refund of the amount overpaid. Where an importer submits a claim for repayment the Charter Standards provides that

12 Percentage of claims for repayment of duty that are settled within time limits set out in the Charter Standards

Customs have not met the Charter Standards for duty repayments in the last three years.



Source: HM Customs & Excise

Customs will settle it within 30 working days of receipt in 90 per cent of cases.

3.10 **Figure 12** shows that Customs exceeded the Charter Standards target in 1996-97 but they did not achieve it in subsequent years.



13 Number and value of repayments of Customs and Agricultural Duties made by Customs

The figure shows that during the period 1996-97 to 1999-2000 the number of repayment claims handled by Customs has risen by 28 per cent, but the total amount repaid has reduced by 17 per cent.

	1996-97	1997-98	1998-99	1999-2000
Number of duty repayment claims	31,896	40,037	44,022	40,706
Value of repayments made by Customs	£47m	£57m	£52m	£39m
Average value of claims	£1,500	£1,400	£1,200	£1,000

Note: All financial data adjusted to 1999-2000 values.

Source: HM Customs & Excise

3.11 We looked into the reasons for the shortfalls in Customs' performance by analysing the total number of claims received by Customs in each of the years 1996-97 to 1999-2000. **Figure 13** shows that the number of claims received by Customs each year has increased since 1996-97, rising from 31,896 claims in 1996-97 to 40,706 in 1999-2000, an increase of 28 per cent. The total value of those claims has however decreased from £47 million to £39 million which is mainly explained by the rates of duty being reduced during the period.

3.12 Further analysis of the claims handled by each of Customs' Collections (regional offices) shows that in 1999-2000:

- nine out of the Customs' 12 Collections that received repayment claims met or exceeded the standard for settling claims within 30 working days of receipt;
- Customs' South East Collection settled 73 per cent of claims within 30 working days which is well below the standard. But the Collection's staff handled approximately 40 per cent of all repayments mainly because they deal with all of the claims arising from declarations made at Heathrow airport (the busiest port of entry in the UK). Late settlements were made typically between 10 and 12 working days after the Charter Standards time limit. For each staff year the South East Collection had to process 1300 claims. This is a considerably higher rate than, say, the Anglia Collection, which had to process 575 claims per staff-year and more than matched the Charter Standards. Customs are looking into whether there is scope to redistribute work and/or resources between Collections so that the South East Collection can meet the demand for repayments.

Customs have missed their target of resolving the relatively small number of claims for compensation within 20 days

3.13 Where a consignment is examined physically Customs take care not to cause damage but if they do the Charter Standard provides that Customs will explain what happened and how the importer can claim compensation. Customs aim to resolve all claims within 20 days of receipt.

3.14 During the period 1996-97 to 1999-2000 the number of claims for compensation was low compared with the number of consignments Customs selected for physical examination and the majority of claims were settled within the 20-day time limit (**Figure 14**). The amount of compensation paid for damage to consignments was unusually high in 1998-99 because Customs paid compensation of £175,000 to cover damages incurred during the search of a trader's premises.

Customs have recently exceeded their target for introducing the new procedures

3.15 In 1997 Customs introduced the customs freight simplified procedures which allows consignments to enter the United Kingdom without being stopped by Customs for fiscal purposes. At a later date the importer submits supplementary declarations to Customs of all goods imported over the period, and makes payments for the amount of duty on those goods. Customs may subsequently visit the importer to confirm that they are complying with the requirements for using the simplified procedures.

3.16 The new simplified procedures replace the "Period Entry" system that is used by some 210 importers and which will be phased out by July 2001. "Period Entry" is similar to the new procedures but does not meet current European Community legislation nor does it have the facility for traders to transfer information electronically to Customs.

14 Number and value of compensation cases for damage caused by physical examination of imported freight

This figure shows that the number of claims for compensation is low compared to the number of physical examinations that Customs carry out.

	1996-97	1997-98	1998-99	1999-2000
Number of claims received	100	98	120	102
Number of claims per 1000 consignments selected for physical examination	1.2	1.0	1.2	1.9
Percentage of claims processed within 20 days	84%	89%	90%	83%
Number of claims paid	53	53	69	48
Amount of compensation paid	£32,388	£46,000	£274,000 ¹	£50,418
Average value of compensation claims paid	£611	£867	£3,971 ¹	£1,050

Note: 1. Includes large claim of £175,000. The average value of the other claims was £1,456.

Source: HM Customs and Excise

3.17 Customs are seeking to encourage the take up of the new simplified procedures because they consider that importers will benefit from the speed with which goods can be moved from the port. They also consider that the new procedures give them greater assurance about the compliance of traders in meeting import requirements and provides them with the opportunity to bring weaknesses in traders' systems to importers' attention, make recommendations to improve controls, and then check that these improvements have been made. Customs recognise, however, that there are risks with the new procedures in that there are fewer opportunities for them to carry out physical checks on consignments. In approving importers to use the new procedures Customs therefore check whether applicants have appropriate accounting systems and have a good compliance history. We looked at Customs' progress in encouraging importers to use the procedures and the way in which they have approved importers to use the procedures.

3.18 In 1997-98 and 1998-99 a key target for Customs in measuring progress was the increase in the value of goods passing through the new procedures. In each of the years Customs did not achieve the target because the take up was slower than expected (**Figure 15**). In the early stages Customs found that commercial software was not available which would enable importers to use the procedures. One trade representative body (The Automated Customs and International Trade Association) told us that importers were also reluctant to invest in new systems until they had seen how the new procedures operated in practice.

15 Value of goods imported using simplified import procedures

Customs did not meet their targets in 1997-98 and 1998-1999. For 1999-2000, Customs introduced a new key performance measure and they have exceeded their target (paragraph 3.19).

	1997-98	1998-99
Target value of goods imported using simplified clearance procedures (including Period Entry)	£19bn	£15.1bn
Actual value of goods imported using simplified clearance procedures (including Period Entry)	£14bn	£13.9bn

Source: HM Customs & Excise

3.19 For 1999-2000, Customs introduced a new target of 40 per cent of consignments by number entering the United Kingdom using the new procedures. By the end of the financial year they had exceeded the target with 53 per cent of consignments valued at over £32 billion, using the procedures. We noted, that there are limits to the percentage of consignments that can enter using the new procedures because:

- Some importers will not gain Customs' approval to use the procedures due to a poor history of compliance with import requirements;
- Some importers who only import a small number of consignments may find the simplified procedures too expensive to operate because of the cost of installing the systems. Such importers may however use import agents who may be approved to use the procedures;
- Some consignments requiring statutory checks such as various plants and foodstuffs are excluded from using the simplified procedures.

3.20 When vetting applicants, Customs examine whether importers have good internal controls which can be relied on to record accurately those transactions on which duty should be paid. Under European Community legislation importers should not be authorised to use simplified procedures if they have made serious or repeated infringements of customs rules. Customs therefore also check the prior record of applicants in meeting import requirements. When carrying out their checks Customs draw a distinction between importers who have made mistakes due to carelessness or error, and ones whose record indicates they are likely to defraud or dishonestly abuse the system.

3.21 By the end of 1999, Customs had authorised a total of 80 importers to import goods using the simplified procedures (Figure 16) and were considering applications from a further 149 importers. One application has been rejected to date. This was due to the applicant having a poor record of complying with import regulations.

3.22 Ten of the earlier applicants for simplified procedures were freight forwarders and fast parcel operators who import goods on behalf of other people/ traders. They only hold the goods for as long as it takes to deliver them. These importers are to a large extent reliant on their customers providing valid information which enables them to produce accurate import declarations. This created a risk for Customs in that the importer is not directly responsible for the contents of the consignment and it is difficult for Customs to carry out any spot checks on a consignment once it has crossed the frontier. For these reasons, it has not been straightforward for Customs to gain assurance about the reliability of freight forwarders and fast parcel operators systems of controls. To address this, Customs require all fast parcel operators using the simplified procedures to apply further computer-based checks on consignments. Customs have access to the results of these checks and may require the importer to retain consignments until they have been examined. In addition, forwarders/fast parcel operators must enter into a legal agreement that makes them liable for any penalties that may arise including those incurred by the trader using their services.

3.23 From our visits to Collections we found that Customs' staff are uncertain about the depth to which they should be carrying out the checks on the traders systems prior to approving them to use simplified procedures. For example at one location, Customs' staff did not carry out a detailed examination of the trader systems at the approvals stage and use the first audit visit after approval to identify and rectify any weaknesses in trader systems. The risk with this approach is that until Customs' staff examine the importers system weaknesses may result in inaccurate import declarations.

16 Number of approvals granted to use simplified procedures per calendar year since the scheme was piloted in 1997

The number of importers approved to use the simplified procedures continues to increase.

Calendar Year	Approvals granted in the year
1997	4
1998	15
1999	61

Source: HM Customs & Excise

3.24 Our review of Customs' guidance found that it provides staff with advice on the type of risks to the revenue that arise when an importer uses simplified import procedures. It does not however set out the features of a good internal control system which Customs' staff could use to compare with the importers' systems. Although the guidance stresses the need to document internal controls prior to approval if the importer is developing a new computer system to use the simplified procedures, it does not set out what should be done if the importer is using a software package that has been developed elsewhere. This creates uncertainty among Customs' staff about how much audit work they need to do before they can grant approval for the importer to use simplified import procedures.

3.25 To supplement the guidance available to staff Customs have circulated the results of an internal workshop that set out the circumstances in which an importer could be regarded as having a poor compliance record and would therefore be unsuitable for using the simplified procedures. The workshop dealt with the distinction between human error and deliberate non-compliance but at the locations we visited not all of Customs' staff who make such assessments are aware of the guidance. Customs are currently drafting a good practice guide for staff on how to authorise/approve a trader for the new procedures and the work that entails.

Recommendations

3.26 Customs can improve the quality of their customer service by:

- a) monitoring the variations at each local office for the standard time it takes for staff to clear goods. From this it may be possible for Customs to alter their national targets to give greater certainty to importers over the time to be taken for handling imports;
- b) considering whether to redistribute the workload and/or resources for dealing with refunds of overpaid duty so that importers receive payments within the target set in the Charter Standards.

3.27 To enable traders to take advantage of the opportunities afforded by using simplified procedures and allow staff to facilitate this, Customs can strengthen their approval procedures by:

- a) ensuring that where appropriate audit teams have documented the key controls and weaknesses in importers' systems before granting approval to simplified procedures, bringing any weaknesses to the attention of the importers and using the results to plan the extent of future audit coverage; and
- b) preparing and issuing guidance that sets out the key features of a good internal control system which meets the requirements for using simplified procedures.

Appendix A

Statutory Controls

The legislation that supports statutory controls at the frontier

Activity/ Other Department	Legislation	Customs work at the frontier
Endangered Species	<ul style="list-style-type: none"> ■ Control of Trade in Endangered Species (Enforcement) Regulations 1997 ■ European Community Council Regulation (EC) 338/97 	Customs use CHIEF and other intelligence to identify imports of endangered species or products derived from them. Under Article 5 of the UK COTES (Control of Trade in Endangered Species)(Enforcement) Regulations 1997 there is a "Reverse Burden of Proof" provision. This gives Customs the power to ask the importer to prove that the goods were legally imported.
Control of dangerous drugs	<ul style="list-style-type: none"> ■ Customs & Excise Management Act 1979 ■ Misuse of Drugs Act 1971 	Customs aim to prevent the import of prohibited or restricted products into the United Kingdom. Controlled drugs fall within this category of work. When an importer declares that they are importing controlled drugs, Customs check that they are licensed to do so.
Import licensing ■ Department of Trade and Industry	<ul style="list-style-type: none"> ■ Import/Exports and Customs Powers Defence Act 1939 ■ Import of Goods Control Order 1954 ■ EC Council Regulation 3030/93 ■ EC Council Regulation 517/94 (licensing of certain textile imports from non-WTO countries) ■ EC Council Regulation 541/98 (imposing mandatory certificate of origin requirements on imports of textile and clothing). ■ EC Commission Regulation 1/2000 (licensing of certain Vietnamese footwear imports) ■ EC Regulations 2136/97/ECSC, 1526/97, 2123/98/ECSC, 567/2000, 519/92, 1335/2000, 541/2000, 542/2000, 543./2000, 2727/99 (licensing certain steel imports from all sources) ■ EC Council Regulation 519/94 (licensing import of certain Chinese non-textile imports, including footwear and ceramics) 	<p>All imports need to be licensed by the Department of Trade and Industry (DTI). Most categories of goods are covered by the Open General Import License (OGIL) regime. This removes the need for the importer to obtain a specific license from the DTI.</p> <p>For certain types of goods (e.g. handguns), the importer needs to obtain a specific license. The license may specify what quantity of goods can be imported.</p> <p>Where goods are subject to a quota, they can only be released once the import license is presented to Customs. They must endorse the license and return it to the importer.</p> <p>Exhausted licenses are returned to the DTI. Customs check 10% of specific licenses before clearing goods. They verify that the documentation matches the license and then they endorse the license. The other 90% of licenses are endorsed after the goods have been cleared.</p>
Animal Health ■ MAFF ■ Port Health	<ul style="list-style-type: none"> ■ Products of animal origin (Import and Export) Regulations (Statutory Instruments No.3124 of 1996 and No 3023 of 1997) ■ The Animal & Animal Products (Import and Export) (England and Wales) Regulations (Statutory Instrument No. 1673 of 2000) ■ EC Directives 96/75 and 97/78 ■ Animals, England - Animal Health - The Pet Travel Scheme (Pilot Arrangements) (England) Order 1999 ■ Animals, England - Animal Health -The Pet Travel Scheme (Pilot Arrangements) (England) (Amendment) Order 2000 	<p>Animals must remain at the port until a certificate [showing that all veterinary checks have been performed] has been provided to a Customs officer and they have authorised the removal. Similar rules apply for animal products such as foodstuffs.</p> <p>In general, the importer should give advance warning to MAFF (who control animal imports) or Port Health officials (who control animal products). These officials then physically examine the goods and provide a health certificate.</p> <p>Customs use CHIEF to identify all imports that need a certificate. They notify port health/MAFF of any imports of which they may not be aware. They do not release the goods until the health certificate has been awarded.</p>

Activity/ Other Department	Legislation	Customs work at the frontier
Ozone Depleters ■ DETR	■ Environmental Protection (Control on Substances that Deplete the Ozone Layer) Regulations 1996 ■ EC Regulation 3093/94	Controlled ozone depleting substances can only be imported under license. A Customs officer may seize a controlled substance or product imported, landed or unloaded in contravention of this regulation.
Plant Health and Forestry Controls ■ MAFF ■ Forestry Commission	■ Plant Health (Great Britain) Order 1993 ■ Plant Health (Forestry) (Great Britain) Order 1993 ■ EC Directive 2000/29 ■ EC Directive 98/22/EC	<p>Certain plants or plant products from outside the European Community can only be imported if they have been the subject of a satisfactory plant health inspection by an authorised officer in the country of origin or the consignor country and are accompanied by a valid phytosanitary certificate.</p> <p>For wood and wood products, phytosanitary certificates are presented to the Forestry Commission by the importer. Once the Forestry Commission has completed its checks, including any inspections, a certificate of clearance is issued by them to the importer to lodge with Customs' entry documents. Customs check that a valid certificate of clearance accompanies each entry. For other than wood and wood products all phytosanitary certificates that are required must be endorsed and dated by a Customs officer before the goods can be released. CHIEF is used to identify imports that might need a phytosanitary certificate.</p> <p>Some plants need a physical inspection. Plant Health and Forestry Commission officials provide details to Customs that allow CHIEF to identify the plants. The officials then visit the port to check the plants. Once they are satisfied, they inform Customs that the plants can be released.</p>
Intellectual property controls ■ Trading Standards	■ EC Council Regulations 3295/94 and 241/99 ■ Trade Marks Act 1994	<p>Holders of copyrights may ask Customs to enforce their rights against pirated, counterfeit or parallel imports. They register their right with Customs for a small administrative fee.</p> <p>Customs use CHIEF and other intelligence to identify offending imports. They can seize such goods if the rights holder confirms that the imports have not been authorised by them.</p> <p>Customs also work with local Trading Standards officers to control the import of potentially dangerous products (e.g. fireworks, toys).</p>
Common Agricultural Policy ■ Intervention Board	■ Treaty of Rome ■ Various EC Regulations	Certain agricultural imports must be accompanied by a license issued by the Intervention Board. Customs check that the license has been submitted, endorse it and return it to the importer.
Community Transit	■ EC Council Regulation 2913/92 ■ EC Commission Regulation 2454/93 ■ The Customs and Excise (Transit) Regulations 1993 (Statutory Instrument 1993 No. 1353) amended by The Community Customs Code (Consequential Amendment of References) Regulations 1993 (Statutory Instrument 1993 No. 3014)	The Community Transit system allows goods to pass between European Community states without duty being payable until the goods reach their final destination. The goods are accompanied by transit documents that are issued by Customs in the member state where the transportation begins. Customs in the UK must collect the transit documents for all community transit imports whose final destination is the UK. The documents are then sent to the Central Community Transit Office for collation.

Appendix B

Audit Approach and Methodology

We reviewed Customs' performance against their key targets for dealing with imports

We looked at the trends in Customs' performance against their key targets including their Charter Standards during the period 1996-97 to 1999-2000.

We visited the Customs' headquarters and local offices at ports to interview managers and examine supporting documentation in order to obtain information on:

- Methods used to select import declarations for checking;
- The approach used to check declarations at local offices;
- The influence of the Charter Standards in determining the approach to frontier work;
- The type and quantity of work performed at the frontier on behalf of other Government departments;
- The approach used by Customs when considering whether importers should be approved to use the simplified import procedures.

To obtain the information we visited eight of Customs' local offices at the busiest ports in terms of the number of declarations made in 1999-2000. These included:

- Heathrow Airport
- Felixstowe
- Dover
- Tilbury
- Manchester Airport
- Southampton
- Stansted Airport
- Birmingham Airport

These offices handled some 61 per cent of all import declarations by number that were made in 1999-2000. We also examined the approach for approving applicants to use the simplified procedures at Reading, London Central and Leeds offices.

We sought the views of representative trade bodies about the level of service provided by Customs' to importers

The trade bodies were:

- Customs Practitioners Group;
- ACITA (The Automated Customs and International Trade Association);
- SITPRO (The Simpler Trade Procedures Board).

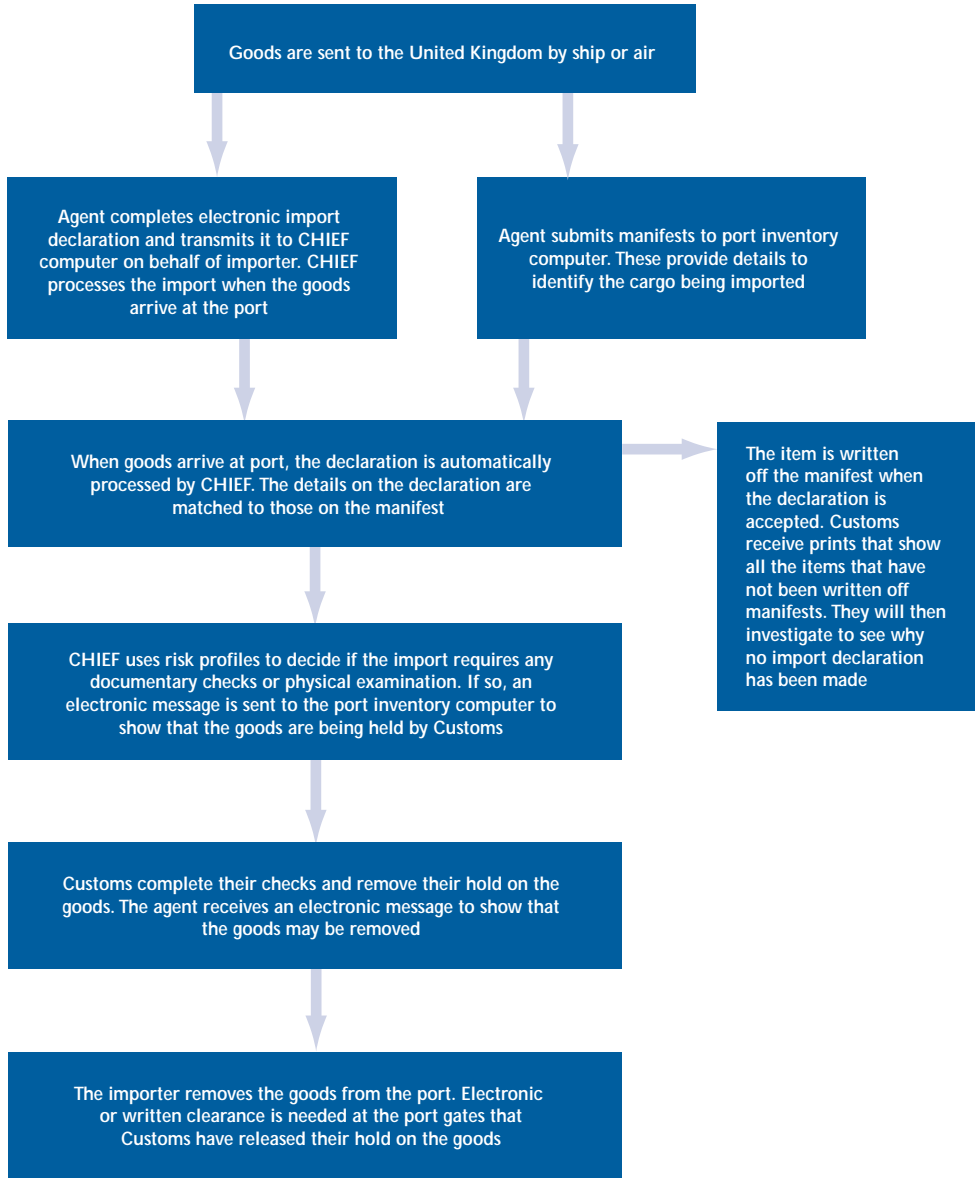
We interviewed staff from departments and agencies that work alongside HM Customs and Excise at the frontier in checking declarations to identify areas where the work could be made more efficient

Customs carry out work at the frontier either with or for other government departments and agencies. We interviewed staff that work for five departments/agencies including:

- The Department of Trade and Industry;
- Port Health Authority;
- Plant Health and Seeds Inspectorate;
- The Forestry Commission.

Appendix C

How imports are processed at a typical port in the United Kingdom



The port inventory system helps Customs to ensure that a declaration is made for all imports into the United Kingdom.

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