

HM Customs and Excise

Regulating Freight Imports from Outside the European Community



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
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executive summary

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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.