



National Audit Office

## **HM REVENUE & CUSTOMS**

# The Control and Facilitation of Imports

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 942 Session 2007-2008 | 7 November 2008

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Tim Burr, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 850 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work saves the taxpayer millions of pounds every year: at least £9 for every £1 spent running the Office.



National Audit Office

**HM REVENUE & CUSTOMS**  
**The Control and Facilitation of Imports**

LONDON: The Stationery Office  
£14.35

Ordered by the  
House of Commons  
to be printed on 5 November 2008

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.

***Tim Burr***  
**Comptroller and Auditor General**  
**National Audit Office**

**3 November 2008**

The National Audit Office  
study team consisted of:

David Allen, Leena Mathew, Katherine Gardiner,  
Daniel Fairhead, Helen Jackson, Sarah Pearcey  
and Iain Forrester, under the direction of  
Jane Wheeler

This report can be found on the National Audit  
Office web site at [www.nao.org.uk](http://www.nao.org.uk)

**For further information about the  
National Audit Office please contact:**

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

© National Audit Office 2008



<b>SUMMARY</b>	4
<b>PART ONE</b>	
The administration of imports	9
<b>PART TWO</b>	
Controlling imports	13
<b>PART THREE</b>	
Facilitating trade	20
<b>APPENDICES</b>	
1 Scope and methodology	27
2 Overview of the importing process	30
3 Overview of the facilitation schemes available to importers	32
4 Prohibitions and restrictions	34
5 Governance processes	36
6 Trader audit risk processes	38
7 Risk management processes	40
8 Methods of providing advice and information	42





# SUMMARY

**1** The UK is part of the customs union of 27 member states of the European Union (EU). The EU provides the legislation and framework under which HM Revenue & Customs (the Department) operates its customs function and manages the flow of international trade. The Department's task is to enforce controls over imports from and exports to countries outside the EU, to collect the revenue due and protect the UK from social and physical threats such as drugs and firearms, terrorism or diseases, whilst making it quick and easy to import legitimate goods into the UK. Responsibility for border controls transferred to the UK Border Agency, a shadow agency of the Home Office, on 1 April 2008.

**2** In 2007-08 the Department processed some 22 million import declarations from 160,000 traders accounting for over £186 billion of goods. It collected £2.5 billion in Customs Duty and £19.3 billion in Import VAT on goods imported from outside the EU. The cost of customs activities in 2007-08 was £240 million. Imports to the UK from outside the EU have increased by 5.5 per cent a year since 1999, and are due to rise by a similar rate over the next five years.

**3** This report examines the Department's performance in controlling imports and facilitating trade. It covers:

- the administration of imports from outside the EU including the Department's governance arrangements (Part 1);
- the Department's performance in enforcing controls through frontier examinations and visits to traders (Part 2); and
- the Department's facilitation of imports including the information and advice it provides to traders and the administrative burdens involved (Part 3).

**4** It focuses on goods imported into the UK from outside the EU that attract Customs Duty and are subject to specific controls. It excludes the work the Department does on exports, intra-EU trade, and Excise Duties. Appendix 1 provides details of our methodology.

## Administration of Imports

**5** The Department's management of customs activities is complex. The Customs and International Directorate is the lead policy and strategy group for customs matters, working with various other directorates. It has difficulty influencing the overall level of work and holding them to account for their performance, which is made more difficult by poor and fragmented management information. In early 2008 the Department introduced a new organisational structure centred on four operational groups to provide a simpler view of responsibilities and accountabilities, and improve coordination. Customs and International is in the Business Tax group. New service level agreements will operate between each of the groups to formalise the services they provide each other.

**6** The Department has Service Level Agreements with various other departments to detect on their behalf prohibited and restricted goods such as firearms, drugs and products of animal origin. Following the establishment of the UK Border Agency in shadow form on 1 April 2008 as a Home Office agency, responsibility for all physical examinations at the frontier has moved from the Department to the Agency. In relation to revenue matters, the Agency will undertake checks on behalf of HM Revenue & Customs. There is continuing work to determine the governance arrangements, including the policy ownership of prohibited and restricted goods.

## Controlling Imports

**7** The Department checks traders' documents for over 280,000 imports each year to ensure that they have appropriate licences or approval to enter the UK. The Department has centralised these checks, and set a standard to clear 95 per cent of entries within two hours. It has yet to develop the necessary level of expertise and resource as a recent quality review identified an 18 per cent error in the checks themselves.

**8** The Department recorded 2,400 physical risk-based examinations of goods selected by its main trade system CHIEF at the frontier in 2007-08. These checks identified 630 irregularities, such as counterfeit goods, drugs, guns and ammunition. While the Department met its Public Service Agreement target during 2007-08 by increasing the percentage of risk-based irregularities detected from 18 per cent to 27 per cent, the number of recorded CHIEF examinations as a percentage of consignments fell from 0.3 per cent in 2003-04 to 0.1 per cent in 2007-08.

**9** Detection officers also select goods locally for examination after reviewing manifest and cargo information. The Department introduced a standardised process of recording these examinations in March 2008. We examined data from April to September 2008 and identified a number of gaps and inconsistencies in recording the data, particularly in country of origin and x-ray examinations at some seaports, which mean it is not possible to give a reliable figure for the number of examinations of imports and irregularities from outside the EU. The UK Border Agency is proposing to review and improve the recording process in autumn 2008, which will improve the accuracy of reported examination rates. While the data may be understated, they suggest that on average around 7,000 to 10,000 examinations are carried out each month at all airports and seaports. Combining these with CHIEF examinations gives an overall examination rate of between two and three per cent.

**10** Detection officers are required to identify the reason prompting an examination. From April to September 2008 the majority of examinations on non-EU goods were carried out for class A drugs (70 per cent), and very few examinations (one per cent) carried out for other prohibited and restricted goods. The rate of irregularities reported from these examinations was much lower than for CHIEF examinations, at approximately one per cent.

**11** The Department reported to the EU that it carried out physical examinations of 0.1 per cent of consignments, based on CHIEF selected examinations only. The EU average examination rate is 9.1 per cent, although direct comparison of data between EU countries is problematic due to differences in remit and practice, and variations in reporting numbers of examinations and rates of irregularities. The Department does not have a standard for the minimum level of examinations required to maintain control of imports, nor is there an EU standard. It also does not undertake structured risk testing to understand the compliance levels across different supply chains and regimes for prohibited and restricted goods.

**12** In 2007-08 the Department undertook 9,300 audits of traders at their premises generating £178 million in Customs Duty and Import VAT. The revenue generated from audits of large businesses has decreased by 67 per cent in real terms to £36.4 million since 2005-06, and the number of audits has reduced by 51 per cent to 183.

**13** The revenue generated from audits of small and medium businesses has increased by 14 per cent in real terms to £141.4 million since 2005-06, but the number of audits has reduced by 42 per cent to 9,130. For these businesses, the proportion of audits identifying irregularities has increased from 32 to 39 per cent from 2005-06 to 2007-08. Levels of error among new traders have increased significantly. The Department has a commitment to the trade to contact new traders within their first year. In 2007-08 there were 40,000 new traders and 33,000 were contacted.

**14** The Department undertakes an annual risk assessment to determine work programmes and allocate its resources. However its customs risk and intelligence information is fragmented, the feedback on results of compliance work at both the frontier and through trader audits is unstructured, and there are few full risk assessments by other government organisations for prohibited and restricted goods. The Department is developing a customs operational framework to improve its risk assessment and prioritisation.

## Facilitating Trade

**15** The customs declaration is the key mechanism by which the Department collects and assesses information on imported goods. Traders consider that completing the document is relatively straightforward. The Department receives 99 per cent of declarations electronically. Payment is also straightforward with 99 per cent of duty collected by automatic transfer. The Department operates

simplified procedures that provide some flexibility for traders in submitting information. It also operates EU regimes that reduce the duty payable and defer payment in certain circumstances.

**16** As part of its Public Service Agreement, the Department measures customer satisfaction through its annual Customer Survey. This showed an increase of positive responses from 46 to 54 per cent between 2005-06 and 2007-08 for customers who agreed that "The UK customs border procedures operated by HM Revenue & Customs have a positive impact on the competitiveness of the UK as a place in which to do business".

**17** By reducing the work it does at the time of import and checking compliance on Customs Duty and Import VAT payments through audits of traders after goods are cleared, the Department clears 90 per cent of goods immediately without further checks. While traders are supportive of the Department's efforts to ensure rapid clearance, they consider that it performs less well post clearance, particularly in trader audits and in repaying overpaid duty. The complex rules on reliefs, classification and valuation of goods lead to traders making errors that could result in large demands for back duty.

**18** Traders are concerned about the cost involved in dealing with future legislative changes, driven primarily by the EU. Although the changes aim to simplify the customs processes, their gradual introduction over seven years means that traders are facing constant changes to their systems and processes. The Department has identified lessons about engaging with traders from implementing recent projects, for example on understanding the effects on traders and gaining their commitment, and providing sufficient resources for implementation.

**19** Traders consider the Department provides a lot of information to help them comply, but it can be difficult to obtain complete and up to date information. The rules are complex and traders are not able to easily obtain specialist advice. The Department has introduced improvements through the Businesslink website in April 2008, which address some of these issues.

**20** The Department has a well established consultation mechanism, the Joint Customs Consultative Committee and its sub-committees, through which it obtains trader input to policy and system changes. It could also use data held within the Department, such as recurring queries to the telephone helpline, to improve its understanding of areas that the trade consider difficult and on which they may need more targeted information.



## Overall Conclusion

**21** The Department is required to balance its facilitation and control activities. Overall it has performed well in facilitating trade, with speedy clearance of most imports, straightforward submission of declarations and payments, and various procedures and regimes in place to reduce trader costs. While importing goods can be complex, the Department provides a high volume of advice and information to assist traders but there is a gap in the provision of more specialist advice.

**22** On controlling imports, the lack of coordinated management information on compliance levels, enforcement activities and costs makes it difficult to assess the overall effect of the Department's activities. The Department has not defined a minimum defensible level of examination. An estimated two to three per cent of consignments are examined at the frontier. The level of CHIEF examinations, determined by set risk profiles, has reduced substantially, but the rate of detected irregularities has increased to 27 per cent. Many more examinations are locally selected, but these detect irregularities in only one per cent of cases. The Department achieved a return of 2.8:1 on the £63 million it spent on trader audits in 2007-08 but the number of audits and overall revenue related to compliance activities is reducing, while levels of non-compliance detected are rising.

**23** The fragmented nature of the customs regime within the Department, a lack of accountability and incomplete management information has hindered effective oversight of its performance and risk management. The Department is actively working to improve its position through the establishment of the Customs Strategy Delivery Group, and the development of a comprehensive customs operational framework.

## Recommendations

### On Administering Imports

- a** Responsibility for managing customs activity is divided among various directorates and international trade is a minor function for most of them. Accountability and reporting lines are blurred and there is limited control of the end-to-end process. **The Department should consolidate functions, such as the National Clearance Hub, into the Customs and International Directorate, and use the Customs Strategy Delivery Group to define responsibilities and establish clear objectives and performance measures for the other directorates.**
- b** Management information is disparate and incomplete making it difficult to obtain an overall view of the Department's performance. Feedback on the results of audits and examinations is also weak. **The Customs Strategy Delivery Group should develop quarterly reporting of the activity, performance and staff costs of the customs control and facilitation activities, and put in place new mechanisms to capture compliance outcomes from audits and examinations.**
- c** Clearer analysis of risks, priorities and outcomes expected will be important in developing the new arrangements for border detection work as the UK Border Agency undertakes checks on behalf of HM Revenue & Customs in 2008. **With the transfer of physical examinations to the UK Border Agency the Department should work with the Agency to devise a Service Level Agreement that sets out its priorities, level of resourcing and information requirements.**

## On Controlling Imports

- d** The Department has an incomplete view of the number of physical examinations it undertakes and the results of those examinations. For example, there were gaps and inconsistencies in recording whether the goods examined were an import or export and the country of origin. X-ray examinations at some seaports are also not currently recorded. **The Department should work with the UK Border Agency to improve the system for complete reporting of physical examinations. Such a system should allow for more accurate and consistent analysis, planning and reporting of work undertaken, particularly to the EU.**
- e** The number of CHIEF generated physical examinations of imports at the frontier has decreased and, although there are additional locally selected examinations, the UK reports the lowest level among EU member states. The rate of irregularities identified from CHIEF and locally selected examinations differ markedly. **It should develop minimum standards for the level of physical examinations required to maintain control over imports and undertake structured risk testing to gauge risks of non-compliance and identify emerging threats.**
- f** The Department checks traders' documents for over 280,000 imports each year. Nearly one in five document checks are not carried out correctly. **The Department should impose a quality target of 95 per cent accuracy, report quarterly to the Customs Strategy Delivery Group, and review factors adversely affecting the quality of checking.**
- g** Risk and intelligence information is gathered in different ways across the Department. **The Department should develop its customs operational framework to include a standard approach to risk assessment to allow a comparative and aggregate view of risk.**
- h** The frequency of trader audits is decreasing and error is increasing. In particular new traders appear to have difficulty in complying, with error rates for this group at nearly 50 per cent. **The Department needs to understand the levels of compliance across all trader groups and develop targets and standards for the frequency and quality of audits to ensure fiscal control and regime integrity.**

## On Facilitating Trade

- i** Many traders take assurance from the results of the Department's audits. They have concerns about the variability of audits, particularly when these identify irregularities not recognised on previous audits. **The Department should undertake a survey of traders to understand their needs and concerns, including for example, feedback on conduct of audits, Departmental communications and their expectations.**
- j** Consultation with traders has identified that the main burdens arise from constant change in systems and processes. **The Department should apply the lessons from introducing previous EU driven customs projects to minimise the impact on traders. It should manage the change process well by providing adequate information and obtaining trader buy-in to the process at an early stage. It should also influence the EU to adopt realistic timescales.**
- k** Traders can obtain advice and information from the Department on routine trade matters but less easily on complicated matters. **The Department should allow the National Advice Service to refer customers with more complicated questions directly to specialist teams.**
- l** The Department obtains a range of data and information from traders which could be utilised to provide valuable insight into how to improve its services. **It should collate and analyse information from the telephone helpline, inspections and audits, and demands for collecting unpaid duty as a way of targeting improvements to services and focusing on those areas in which customers have difficulty complying.**

# PART ONE

## The administration of imports

This Part explains how imports from outside the EU are administered in the UK, and the organisational and governance structure of customs activities within HM Revenue & Customs.

### The scale and nature of imports to the UK

**1.1** In 2007-08 the UK imported £186 billion of goods from outside the European Union (EU). Imports increased by 5.5 per cent a year on average between 1999 and 2007, and represented 11.5 per cent of Gross Domestic Product in 2007. The countries exporting most goods to the UK from outside the EU are the US, China and Norway (oil and gas). The fastest growth is in imports from China to the UK.

**1.2** Around 4.1 million consignments enter the UK each year, with about 60 per cent by air, 35 per cent by sea and 5 per cent by road and rail. Within each consignment (a container, pallet or parcel) there may be multiple imports, each of which requires a separate declaration. Heathrow is the airport with most air freight movements and Felixstowe is the largest seaport.

**1.3** The number of traders importing and exporting goods in the UK grew by 11 per cent between 2002 and 2007. Of the 160,000 traders involved, 80,000 are regular traders making more than three imports a year.

### The role of HM Revenue & Customs

**1.4** The UK is part of a customs union between the 27 member states of the EU. The EU<sup>1</sup> sets out the customs requirements and the fiscal and regulatory measures for the declaration of goods entering or leaving the EU. Enforcement, penalties and criminal law are within national jurisdiction and UK law provides the supporting framework of sanctions for non-compliance. **Figure 1** shows the joint mission statement of the customs union.

#### 1 Mission statement of customs in the European Union

##### Customs in the European Union – A Joint Mission Statement

Customs is responsible both for protecting society and facilitating international trade through the management of external borders and by ensuring overall supply chain security. We are committed to:

- Ensuring the safety and security of citizens.
- Protecting the financial interests of the Community and its Member States.
- Protecting the Community from unfair and illegal trade while supporting legitimate business activity.
- Increasing the competitiveness of European Business through modern working methods supported by an easily accessible electronic customs environment.

To carry out these duties, we shall co-operate nationally and internationally to combat fraud, organised crime and terrorism in collaboration with other authorities, notably with other law enforcement agencies. Our aim is to operate with integrity and provide the highest possible level of service.

Source: European Commission

1 The relevant EU legislation is known as the Community Customs Code and the related Implementing Provisions.

**1.5** HM Revenue & Customs is responsible for ensuring that importers and exporters comply with EU and UK customs legislation. Appendix 2 gives an overview of the importing process. The Department’s responsibilities on imports are:

**Fiscal**

Collecting customs duties and import related VAT.

**Economic**

Facilitating imports in a way that maintains the UK as a good place to do business, and supporting UK and EU businesses by providing a level playing field.

**Social and Physical**

Enforcing controls over the import of prohibited and restricted goods such as drugs, firearms, and endangered species; and countering threats to the UK including terrorism and diseases, such as avian influenza.

**1.6** While the Department has statutory responsibility for the delivery of customs functions, the UK Border Agency now carries out physical checks at the frontier on behalf of the Department. This is a new agency, which came into existence in shadow form on 1 April 2008, integrating the work of the Immigration Agency, UK Visas and the Department’s Detection Directorate.

**Fiscal – Collecting Duties and Taxes**

**1.7** In 2007-08 the Department collected £2.5 billion in Customs Duty and £19.3 billion in Import VAT representing almost five per cent of total tax revenues. Between 2003-04 and 2007-08 there was a 17 per cent growth in Customs Duty and 12 per cent growth in Import VAT in real terms (Figure 2). Imports from outside the EU grew at almost 5.5 per cent per year by value.

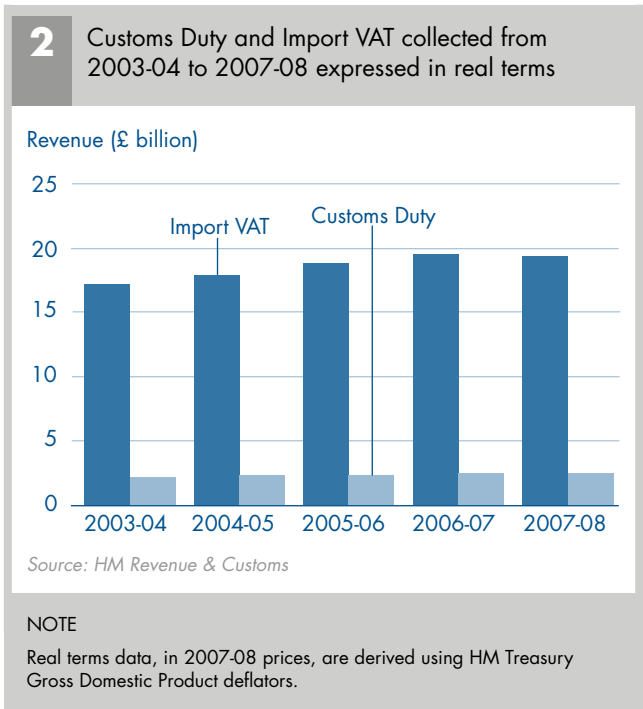
**1.8** Customs Duty is the European duty on goods imported from outside the EU, collected by member states on behalf of the EU. There is no Customs Duty on goods traded within the EU. The EU provides for member states to retain 25 per cent of customs duties to cover the cost of collection. The UK retains 10 per cent, as it receives additional funding through an annual rebate received from the EU known as the UK correction.<sup>2</sup>

**1.9** The European Commission sets the duty rates. Rates vary, generally between 0 and 20 per cent, depending on the type of good and the country of origin. Goods subject to anti-dumping duties can attract much higher rates. Duty rates have been falling over the last decade in line with international trends towards reducing trade barriers. In 2006, 32 per cent of goods imported into the UK from outside the EU were free of duty. Goods imported from outside the EU are also liable for Import VAT at a rate dependent on the type of good.

**1.10** The Department checks whether the right amount of duty and VAT is paid on imports through audits of traders at their premises. Traders are required to hold documentation for three years after the year of import, and they can be liable for payment of back duties and taxes in that period. They can also face civil penalties for non-compliance.

**Economic – Facilitating imports**

**1.11** All goods imported into the EU require completion of an import declaration. The Department processes around 22 million import declarations each year. The declaration states the type of good and its destination, and includes the commodity code and the customs procedure code. The commodity code determines the duty rate and any restrictions that apply. The customs procedure code describes the purpose of the shipment and informs the Department whether duty should be applied immediately or suspended.



2 See 85/257/EEC, Euratom: Council Decision of 7 May 1985 on the EU’s system of own resources, which authorised the application of a correction to the United Kingdom.



**1.12** Duty suspension and relief regimes allow goods to be imported without payment of duties and taxes subject to certain conditions. In 2007-08, a total of £63.1 billion of goods were imported under duty suspense arrangements. The most common scheme is Inward Processing Relief, which allows traders to import goods, process them and re-export them without paying duty. Appendix 3 shows the various duty suspense and other relief arrangements available.

**1.13** Importers, their agents or Department staff enter all import declaration data into the Department's Customs Handling of Import and Export Freight (CHIEF) system. The system provides traders with direct access to electronic processing of imports and exports, including the calculation of duties, currency and quantity conversions. The Department uses the system to profile goods and determine whether to undertake a physical examination, documentary check or give clearance.

## Social and Physical – Enforcing Import Controls

**1.14** The Department is responsible for enforcing 34 regimes that prohibit or restrict the types of goods that can be imported into the UK. These include drugs, firearms and certain products of animal origin. The Department has a central unit which verifies import documentation, and through the UK Border Agency, Detection officers at ports undertake physical examinations of goods. Discovery of irregularities can lead to seizures or criminal investigation.

**1.15** Policy responsibility, strategy development and risk assessment for these regimes rests with other departments, such as the Home Office for drugs. The Department has a Service Level Agreement with the lead department for each regime. Appendix 4 shows the regimes and lead department or agency.<sup>3</sup>

**1.16** An Internal Audit review of the Service Level Agreements undertaken in 2007 concluded that there remains a lack of clarity over how the prohibition and restriction regimes relate to the Department's fiscal priorities. It considered that this lack of clarity over priorities contributed to a reactive approach to work on prohibitions and restrictions, tension between the Department's priorities, and weakens the commitment and expectations of other lead government departments. It also found that lead departments' risk assessments were not all in place.

## Responsibilities within the Department for managing the imports process

**1.17** The Customs and International Directorate has lead responsibility for customs and international trade matters within the Department. It also represents the UK in negotiations on development and implementation of EU customs policy and legislation.<sup>4</sup>

**1.18** The Customs and International Directorate coordinates activity with various other directorates across the Department (**Figure 3 overleaf**), such as Local Compliance which undertakes visits to small and medium sized traders,<sup>5</sup> and Detection (now part of the UK Border Agency) which primarily assesses manifest and cargo information to select goods, and undertakes physical examinations of these goods at the frontier. It also coordinates management of the prohibitions and restrictions regimes on behalf of other government departments and agencies.

**1.19** There are 1,400 staff involved in managing imports across the Department plus 4,500 Detection staff in the UK Border Agency. Customs work forms a small part of the work of the other directorates. For example, in the Large Business Service, about 100 out of the total 1,800 staff deal with customs work. In 2007-08 the Department estimated the cost of running the customs function at £240 million. We were unable to assess the possible changes in efficiency due to the general lack of cost data from previous years following organisational changes.

**1.20** We evaluated the Department's governance model for customs activities. The detailed results are in Appendix 5. Each directorate controls its use of resources so that customs priorities compete with other taxes for resource within the delivery areas. Customs and International cannot control the number of physical examinations at the border or how often traders are audited and has difficulty in holding the delivery areas accountable for performance. In 2007 it created the Customs Strategy Delivery Group to improve management of customs activities at a strategic and operational level (Figure 3).

<sup>3</sup> In March 2005 the National Audit Office published a report on *Stopping illegal imports of animal products into Great Britain* HC 365 2004-05, which examined the Department's performance in controlling illegal imports of animal products.

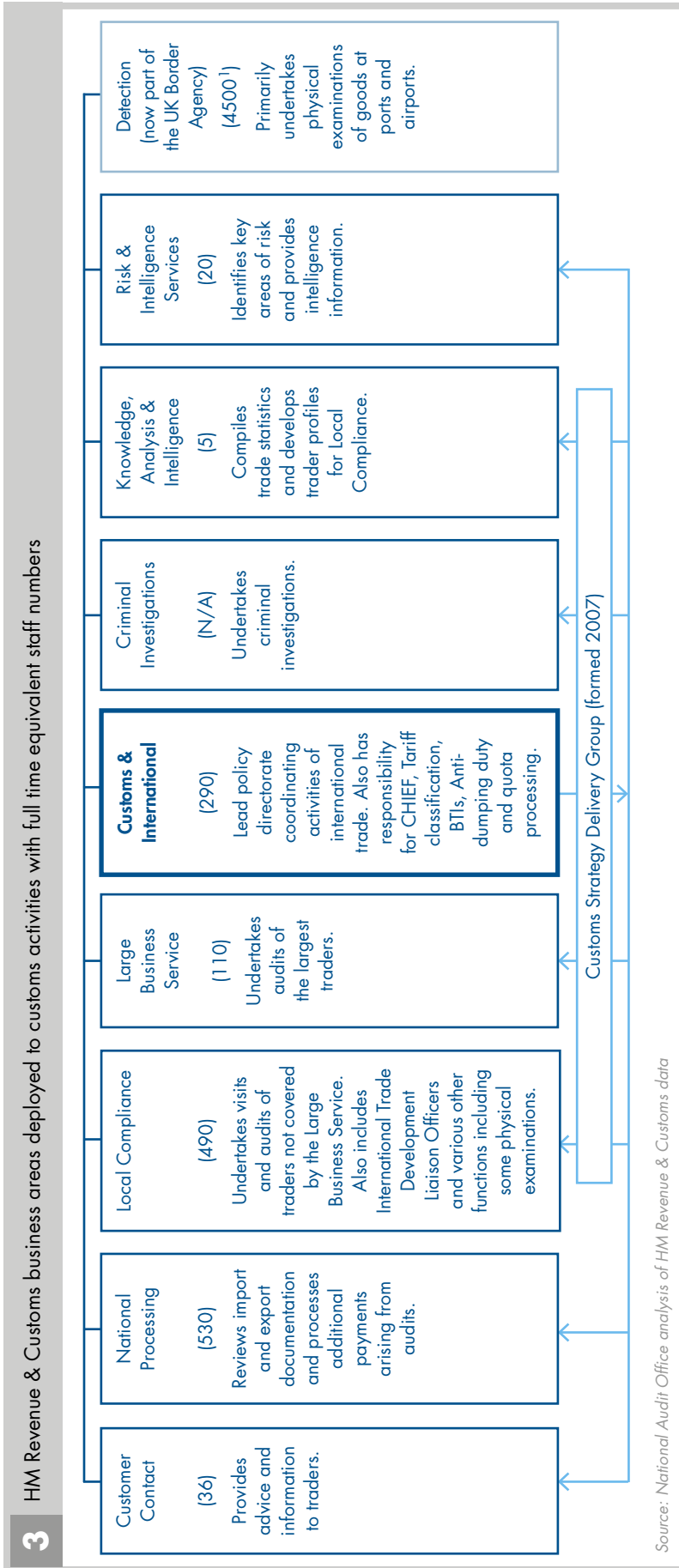
<sup>4</sup> The Department for Business, Enterprise and Regulatory Reform (BERR) is the lead department for negotiations on trade policy matters.

<sup>5</sup> Local Compliance also undertakes some physical examination activities on behalf of Detection, such as examining goods that are in a trader's premises or customs controlled warehouse.

**1.21** In response to its Capability Review,<sup>6</sup> the Department introduced in early 2008 a new organisational structure centred on four operational groups to provide a simpler view of responsibilities and accountabilities, and improve coordination. Customs and International is in the Business Tax group. New service level agreements will operate between each of the groups to formalise the services they provide each other.

**1.22** The various directorates involved in managing customs activities each have their own recording and reporting systems but the information is not always widely available across the Department or easily comparable. For example, the Customs and International policy area does not receive regular detailed reports from Local Compliance on the trader audits they carry out.

**1.23** There has been a lack of a clear vision for customs activities. The Customs and International directorate is developing a customs operational framework to set the objectives, priorities, resourcing and reporting arrangements for customs activities. It plans to use the Customs Strategy Delivery Group as a mechanism to agree and monitor progress against the framework. Now that the UK Border Agency is managing Detection officers, the Department will need to specify the risks and to develop outcome measures to enable effective monitoring of performance and clear lines of accountability. The customs operational framework should play a role in establishing priorities and defining accountability.



**NOTE**

<sup>1</sup> Not all detection staff are involved in specific customs activities. For example, staff are deployed to other activities to tackle risks to alcohol, tobacco and oil excise duties, but we were unable to attribute the exact number to these functions.

<sup>6</sup> The findings of HMRC's *Capability Review* were published by the Cabinet Office in December 2007.

# PART TWO

## Controlling imports

This Part examines the arrangements for controlling imports from outside the EU. It covers:

- controlling physical and social risks at the frontier;
- controlling fiscal risks through trader visits; and
- the Department's approach to risk management.

**2.1** The Department has a responsibility to protect UK and EU borders and secure general compliance of traders with their legal obligations, including paying the right amount of tax and duty at the right time. The Department uses risk management techniques to intercept those goods at the frontier where there is a need to exercise regulatory controls or where there may be a physical or social risk, either by documentary check or physical examination. It deals with fiscal and general compliance with EU regulations through audits of traders.

**2.2** The Department assesses the majority of imports against a range of risk profiles developed from intelligence and risk analysis. It uses the CHIEF system and a number of other systems such as Anti-Smuggling Nets that link directly into commercially operated manifest and cargo systems. For some goods imported via Customs Simplified Freight Procedures, there is insufficient information to perform a full risk assessment. These are therefore covered through audits rather than frontier intervention.

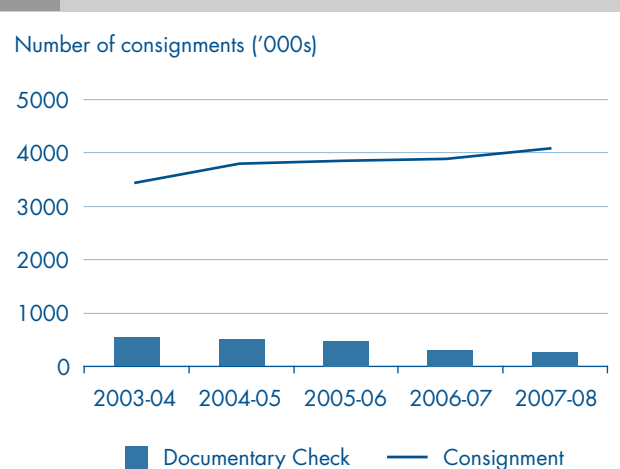
### Controlling imports through documentary checks

**2.3** The Department requires the importer to fax or email relevant documentation, such as licences, country of origin certificates and import approval for cultural goods, to its National Clearance Hub. The Hub can complete some licence checks electronically. It identifies relatively few irregularities, such as fraudulent, missing and incorrect documentation.

**2.4** In 2007-08 280,000 import consignments were subject to a documentary check. Between 2003-04 and 2007-08 consignments increased by 19 per cent from 3.4 million to 4.1 million (**Figure 4**) while the percentage of documentary checks fell from 15.9 per cent to 5.5 per cent. The reduction is primarily due to changes in legislation requiring fewer documentary checks, automated checks on licences and a move to post-clearance checks on the amount of duty paid.

**2.5** The Department centralised its documentary checks at the Hub in March 2007, at which point it set a target to clear 95 per cent of entries within two hours of receiving the documents. Prior to centralisation the target was 12 hours for non-electronic and four hours for electronic submissions. From April 2007 to March 2008 it cleared 87 per cent of entries within the two hour target. The Hub has not met the target primarily because of staffing and rota constraints that restrict its ability to match the peaks and troughs of activity. The industry

**4** The number of consignments and the number of documentary checks 2003-04 to 2007-08



Source: National Audit Office analysis of HM Revenue & Customs data

has peak periods for submitting documentation which correspond with changeovers and reduced shifts. For example agents in Felixstowe tend to fax their entries at 4pm. The Department is currently reviewing staffing and rota arrangements.

**2.6** When the Hub was established, 30 of its complement of 150 had previous experience in customs activities. The Department is standardising training and guidance for the Hub. Officers carrying out the documentary checks have reported some difficulties in interpreting what documentation is required and the check that needs to be performed. In September 2007, the Department formed a new technical team to assist with developing the profiles for selecting imports for documentary checks. It also formed a quality team to audit documentation and provide feedback to staff. This team has raised issues around the quality of the checks performed. In February 2008, a review of 430 cleared documents showed that 18 per cent of checks had an error and did not meet the clearance standard. There is a possibility that the two hour target may affect the quality of checks. The Department also recognises that the two hour target may not always be necessary for reasons discussed in paragraph 3.12.

### Controlling imports through physical examination

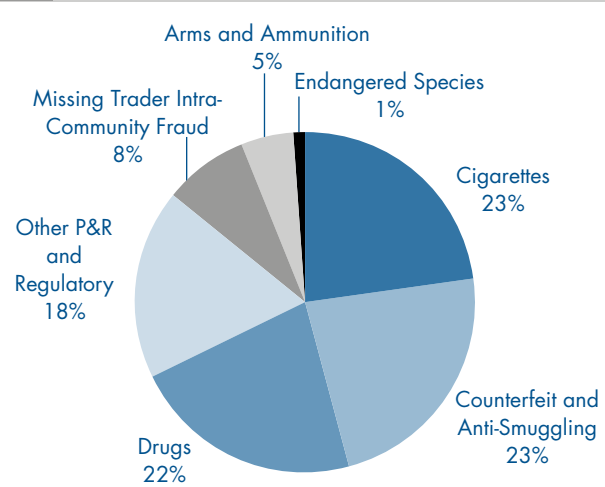
**2.7** Goods are selected for physical examination through two different processes. These are:

- the CHIEF system which automatically selects goods for examination by checking them against set risk profiles; and
- the assessment of manifest, cargo and scanner information by Detection Officers.

**2.8** The examinations cover both customs checks, such as for counterfeit goods and endangered species, and excise checks such as for tobacco and alcohol smuggling. **Figure 5** shows a snapshot of the reasons prompting CHIEF selection of goods for examination in September 2007.

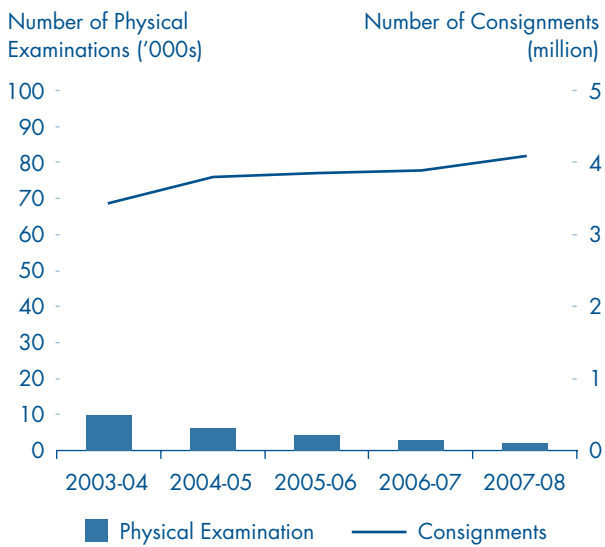
**2.9** In 2007-08 the Department reported 2,400 examinations via the CHIEF system which identified 630 irregularities. In 2003-04 it reported 10,000 examinations, meaning that the number of examinations selected as a percentage of consignments, has fallen from 0.3 per cent in 2003-04 to 0.1 per cent in 2007-08 (**Figure 6**).

**5** Reasons why goods were selected for examination in September 2007



Source: HM Revenue & Customs data

**6** Number of imports selected for physical examination via the CHIEF system and total number of imports over the period 2003-04 to 2007-08



Source: HM Revenue & Customs data



**2.10** Not all goods selected via CHIEF for examination are actually checked. From March 2006 to December 2007 the percentage of goods selected for examination but not checked ranged between 10 and 77 per cent (three month rolling average). There are a number of reasons for not checking goods selected, including the officer making an informed decision based on an assessment that there is no material risk, technical issues resulting in an incorrectly selected good, and lack of resources. Performance has improved over the period because the Department removed out of date risk profiles that were selecting low risk imports. In the last six months of 2007, the Department did not examine 16 per cent of goods selected.

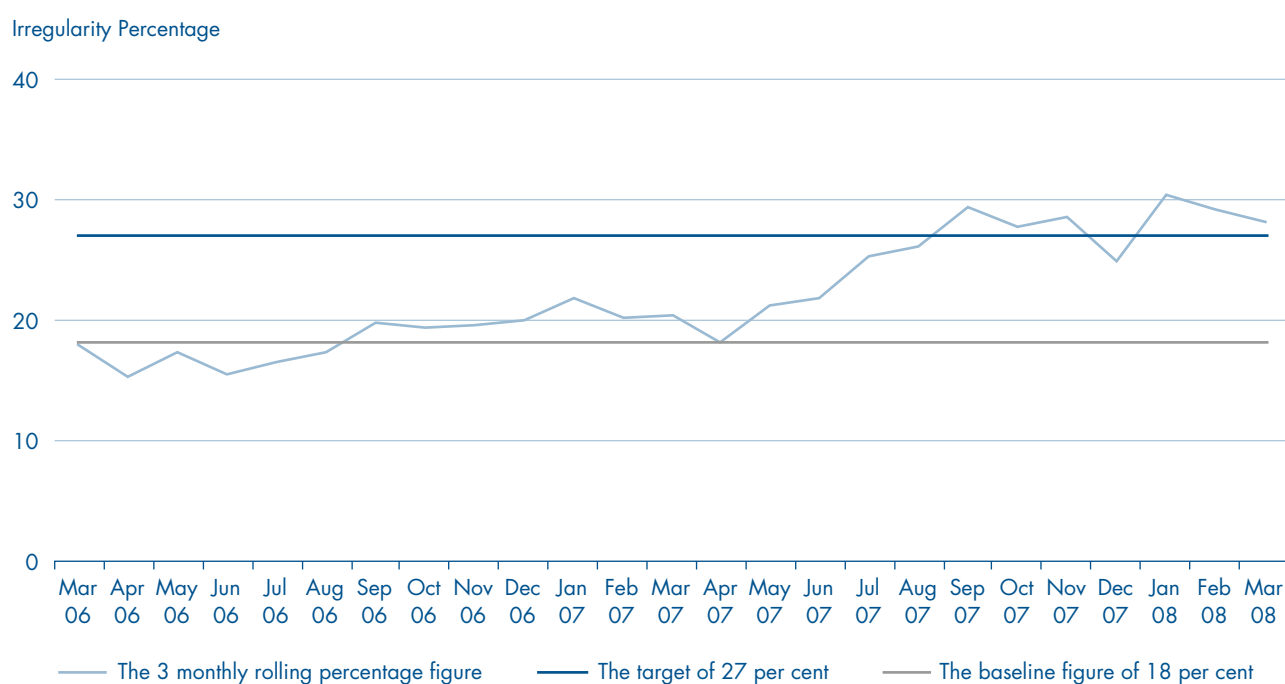
**2.11** The Department has a Public Service Agreement target to improve its identification of irregularities. It aimed to increase the percentage of examinations that identify irregularities from 18 per cent in 2005-06 to 27 per cent by March 2008. This measure is designed to assess the Department's performance in setting risk-based criteria to select freight for examination. Based on the CHIEF examinations the Department reached the target of 27 per cent during 2007-08 (**Figure 7**).

**2.12** The measure does not reflect the falling level and monthly variation in number of examinations, nor the other examinations undertaken from the review of manifest, cargo and scanner information. **Figure 8 overleaf** shows the number of examinations and irregularities identified between March 2006 and March 2008.

The Department considers that the drop in physical examinations is mainly due to the elimination of out of date risk profiles. It has added few new risk profiles, and it is unclear whether it would have achieved its target if it had maintained 2005 levels of examination.

**2.13** Detection officers also select goods for examination after reviewing manifest and cargo information. The Department started recording this examination activity in April 2007, but only introduced a standardised process in March 2008. We examined data from April to September 2008 and identified a number of gaps and inconsistencies in recording the data, primarily in not recording the country from which the goods arrive. This information is used to determine whether the examination has been carried out on EU freight or on goods from outside the EU, which are subject to different restrictions. There are also inconsistencies in recording whether the freight is an import or an export, and in recording the number of examinations carried out. The UK Border Agency, which now has responsibility for physical examinations at the frontier, is proposing to review and improve the recording process in autumn 2008.

## 7 The Department's progress against its PSA target for improving its effectiveness in identifying irregularities



Source: HM Revenue & Customs data

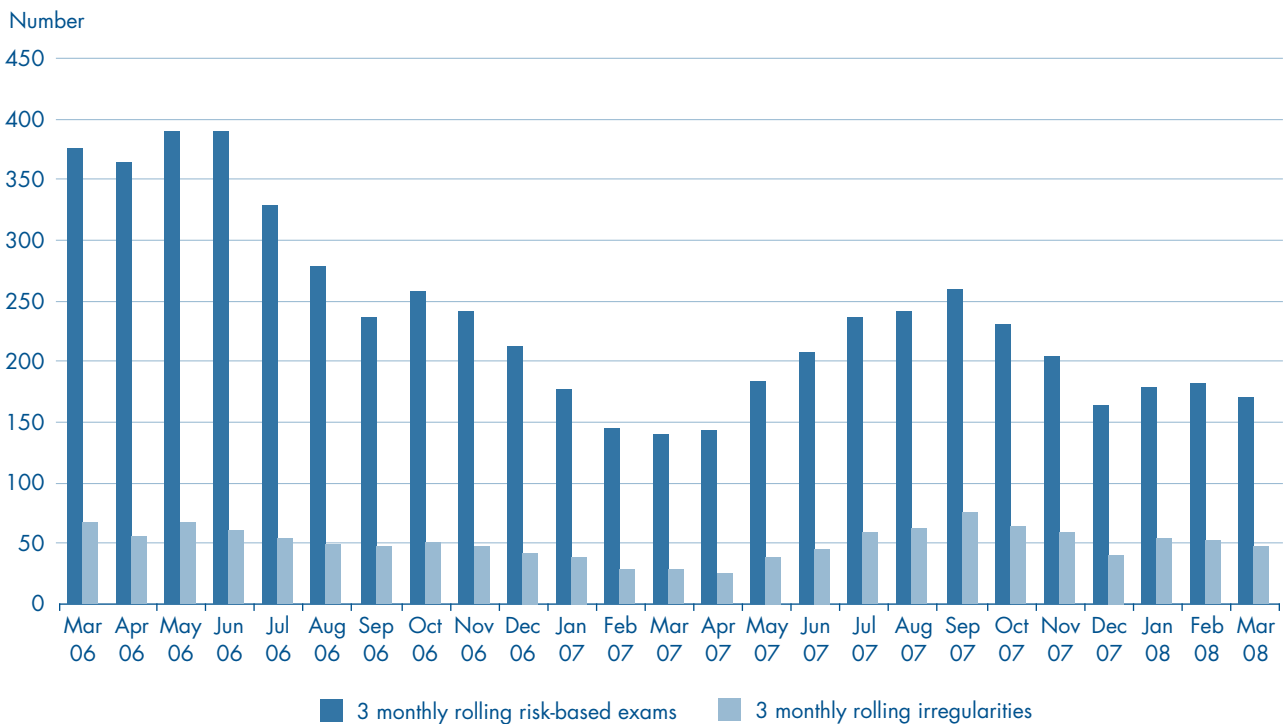
**2.14** The gaps and inconsistencies in the data mean that it is not possible to give a reliable figure for the number of examinations of imports and irregularities from outside the EU. Nevertheless, the data suggest that between April and September 2008, detection officers carried out on average around 7,000 to 10,000 examinations each month at all airports and seaports, excluding ferry ports. The lower figure represents examinations of goods clearly recorded as imports from outside the EU, while the higher figure includes examinations where a country of origin has not been recorded.

**2.15** The majority of traffic entering ferry ports, such as Dover, arrive in lorries. Such traffic accounts for around five per cent of the UK's imports from outside the EU. Detection officers at ports carry out on average 3,000 freight examinations each month of both EU and non-EU freight. Detection officers do not record the origin of the freight, although they do record details on the nationality of the driver and vehicle. While Detection officers consider that most examinations they carry out are on goods from within the EU<sup>7</sup>, some are on non-EU goods, so that the number of examinations given in paragraph 2.16 are likely to be understated.

**2.16** Examinations can vary from a document check or quick inspection of a vehicle to a detailed physical examination of the goods, depending on risk, type of goods and method of transport. They also vary between different points of entry to the UK for the same reasons. The majority of examinations at airports are on courier packages that are quick to check. There were on average around 6,600 to 9,200 examinations recorded each month between April and September 2008 at airports giving an examination rate of three to five per cent of all air consignments. Containers arriving at seaports are much more time consuming to open and examine, and around 300 to 600 examinations are recorded on average each month on goods arriving by sea (excluding ferry ports), giving an examination rate of 0.3 to 0.6 per cent. They also exclude x-ray examinations at some seaports, which are not currently recorded. Combining CHIEF and average monthly manifest examinations for airports and seaports (excluding ferry ports) suggests an overall examination rate of between two and three per cent.

8

Trend in number of imports selected for physical examination via the CHIEF system and the number of irregularities identified



Source: National Audit Office analysis of HM Revenue & Customs data

7 Intra-EU traffic is not subject to the same import regulations that apply to non-EU traffic. There is no requirement to complete a customs import declaration, which includes country of origin details.

**2.17** Detection officers are required to identify the reason prompting an examination. The data suggest that the majority of examinations for non-EU goods are carried out for class A drugs (about 70 per cent), tobacco (about 10 per cent) and Community Transit (about 10 per cent). Approximately one per cent of examinations are carried out for other prohibited and restricted goods (see Appendix 4 for a full list of prohibited and restricted goods). The number of irregularities reported from these examinations is lower than for CHIEF examinations, at approximately one per cent, with some variation between air and sea ports.

**2.18** The UK reported to the EU that its rate of examination in 2007 was 0.1 per cent, based on the CHIEF examinations only. We compared the UK rate against the 27 countries of the EU.<sup>8</sup> The EU average for the 2007 calendar year was 9.1 per cent with a median of 7.6 per cent. **Figure 9** below gives the distribution of examination rates although we recognise that direct comparison of data between EU countries is problematic

**9** Distribution of examination rates among EU countries

Examination Rate (%)	Number of Countries
0–0.99	2
1–1.99	5
2–3.99	2
4–5.99	1
6–7.99	4
8–9.99	1
10–39.99	12

Source: EU Annual Measurement of Results Report

due to different volumes of traffic, differences in remit and practice, and variations in reporting numbers of examinations and rates of irregularities. The EU has no standard for the level of inspections required by each member country or for what an inspection should entail. The Department considers that its risk targeting justifies lower levels of examination, but the fragmented nature of its risk and intelligence information makes it difficult to assess. Paragraphs 2.26 and 2.27 cover the effectiveness of the risk assessment.

## The Department's performance in trader audits

**2.19** The Department carries out audits on traders to check compliance with legal obligations. These audits are split between:

- the Large Business Service for the 1,000 largest businesses operating in the UK; and
- Local Compliance for all other businesses, of which more than 80,000 regularly import into the UK.

Audits may check a single aspect, such as compliance with valuation, or Customs Freight Simplified Procedures, or they can be a full compliance audit. Both the Large Business Service and Local Compliance select traders for audit on a risk basis, as set out in Appendix 6.

**2.20** In 2007-08 Local Compliance and the Large Business Service completed 9,300 audits, resulting in total additional yield of £178 million, split between Customs Duty (34 per cent), Import VAT (59 per cent) and Excises (7 per cent). **Figure 10** shows the performance of each directorate in 2007-08. The cost of the compliance activities was approximately £63 million, thus the Department achieved a return of 2.8:1.

**10** Number of trader audits and additional yield generated by Local Compliance and the Large Business Service

2007-08	Yield from compliance activity	Number of audits	Average additional yield per audit	Average additional yield per staff person
Large Business Service	£36.4m	180	£199,000	£330,000
Local Compliance	£141.4m	9,130	£15,000	£313,000 <sup>1</sup>
Total	£177.8m	9,310	£19,000	£316,000

Source: National Audit Office analysis of HM Revenue & Customs data

### NOTE

- 1 The average yield per staff person excludes staff involved in additional activities to improve voluntary compliance.

<sup>8</sup> The European Commission collects information from all member countries on their examinations. This information is shared between members but is not published externally. For the purpose of the report, the European Commission has given us permission to publish the anonymised distribution.

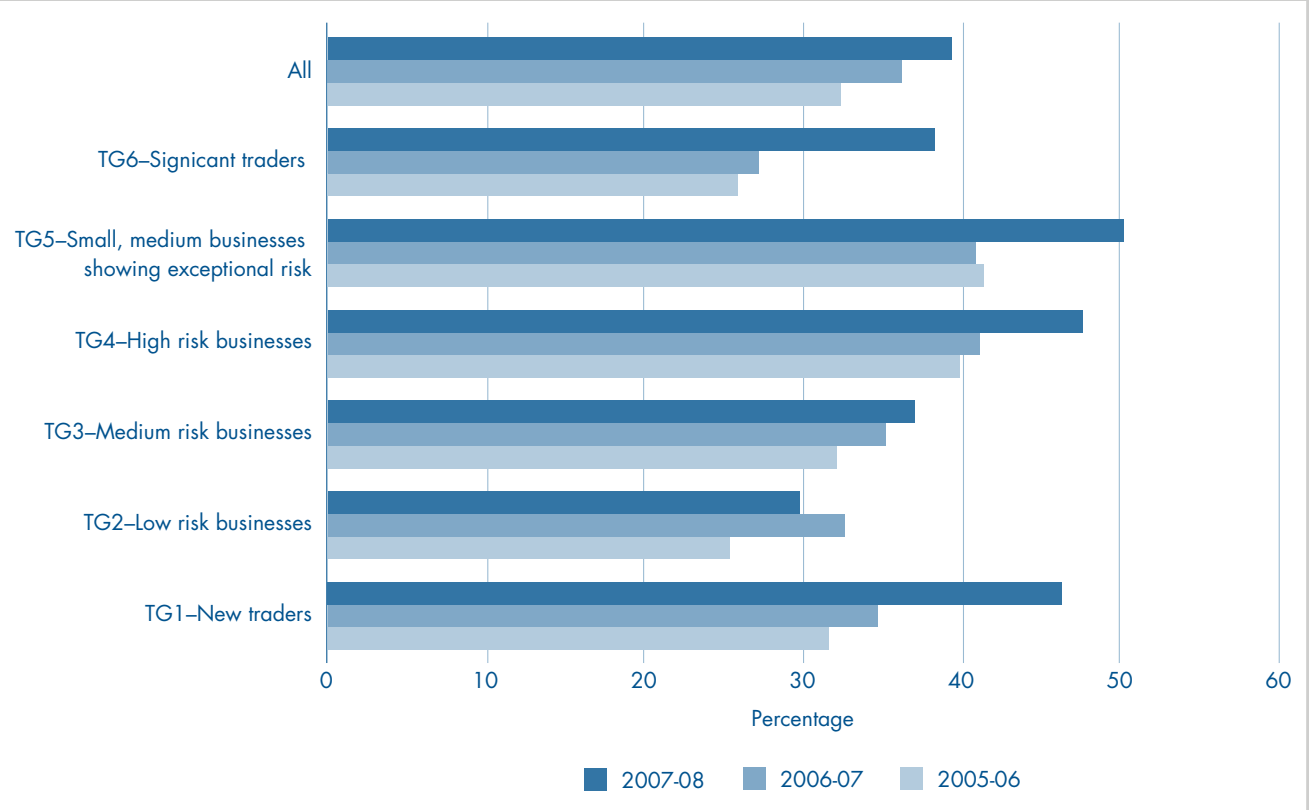
**2.21** The number of audits conducted by the Large Business Service from 2005-06 to 2007-2008 has decreased by 51 per cent from 377 to 183. Over the same period, the total yield from compliance activities has decreased by 67 per cent in real terms to £36.4 million. The level of additional yield fluctuates markedly each year for the Large Business Service, which deals with a small number of large businesses where individual additional payments can have a significant impact on results.

**2.22** The number of audits conducted by Local Compliance from 2005-06 to 2007-2008 has decreased by 42 per cent from 15,800 to 9,130. Over the same period, the total yield from compliance activities has increased by 14 per cent in real terms to £141.4 million. In addition to audits, Local Compliance undertakes a range of additional activities, working with traders to improve voluntary compliance and influence customer behaviour. This can include provision of education, trader visits, letters and phone calls and following up on the outcome of audits. Combining this activity and audits, Local Compliance undertook 174,000 hours on all international trade activities and made over 21,000 contacts in 2007-08. This was a significant decrease on the 289,000 hours and 76,000 contacts in 2005-06.

**2.23** Although the number of Local Compliance audits carried out has fallen significantly, the percentage of irregularities identified has increased from 32 per cent to 39 per cent. The additional average yield per audit has increased in real terms by 98 per cent since 2005-06 to £15,500 per audit in 2007-08. The fall in number of audits means that the chance of a trader receiving an audit has fallen from 18 per cent to under 10 per cent.

**2.24** Local Compliance splits its businesses into six Trader Groups based on their size, risk and level of customs activity. The percentage of audits that identified irregularities increased for all Trader Groups between 2005-06 and 2007-08 particularly among new traders (Figure 11). This group may experience particular difficulties in understanding their obligations. The Department has a commitment to the trade to contact all new traders within their first year of involvement with customs. In 2007-08 there were 40,000 new traders and 33,000 were contacted.

**11** The percentage of audits identifying irregularities for each Trader Group (TG) 2005-06 to 2007-08



Source: National Audit Office analysis of HM Revenue & Customs data



**2.25** When the Department identifies irregularities, it can impose a civil penalty, under a system introduced in 2003.<sup>9</sup> The Department will either issue a warning letter or a Penalty Notice depending on the circumstances of the irregularity. The Department carries out some follow up activity after issue of a warning letter, and has found that in general compliance improves. The maximum penalty in law is £2,500 for more significant irregularities and £1,000 for lesser offences. The first penalty is usually £250, increasing for subsequent contraventions. This may not be much of a deterrent, particularly for large businesses (**Figure 12**).

## The Department's performance in assessing and monitoring risk

**2.26** In its annual planning, the Department takes into account competing priorities in the prohibited and restricted goods regimes, and trading trends in commodities and country of origin, to assess the key areas of risk. This assessment drives the development of a national work programme that highlights the priority risk areas for action.

**2.27** Appendix 7 shows the approach and results of our assessment of the Department's risk management. The main areas for improvement are summarised below:

### Framework

- As with our findings on governance, there are opportunities to improve the coordination, accountability and performance management for the risk management processes. The Customs and International Directorate is developing a customs operational framework, which will set the objectives, priorities, resourcing, and reporting arrangements for customs activities to achieve a more joined-up approach.

### Identifying Risk

- The identification and assimilation of risk and intelligence is fragmented. There is limited feedback across the Department on the outcome of compliance activity. There is also no structured risk testing built into work programmes to monitor for emerging risks. The Department stopped random inspections of imports in 2001 as resource constraints and rising volumes of trade affected the statistical viability of the sample and the Department considered they were an ineffective means of targeting.

### Assessing Risk

- Risk is assessed at different levels across the organisation. There is no consistent approach to enable a comparative and aggregate risk view, although the Department is addressing this through the new customs operational framework. There is a focus on proven risk rather than potential risk and there are no measures of compliance levels.

### Controlling Risk

- The Department has effective profiling mechanisms to select cases for scrutiny through the CHIEF system. Courier and Royal Mail risk is controlled separately on a manual basis.

### Monitoring Risk

- The various directorates involved each have their own recording and reporting systems but the information from each is not easily comparable or brought together across the Department.

## 12 Penalties issued by Local Compliance in 2006-07 and 2007-08

	Warning letters issued	Number of penalties issued	Total value of penalties	Average value of penalty
2006-07	744	133	£155,300	£1,168
2007-08	693	126	£152,500	£1,210

Source: National Audit Office analysis of HM Revenue & Customs data

<sup>9</sup> Prior to this, criminal sanctions were used, which were found to be cumbersome and inappropriate for minor offences. Separate criminal sanctions are still used to manage prohibitions and restrictions and smuggling of tobacco and alcohol.

# PART THREE

## Facilitating trade

This Part reviews the Department's performance in facilitating trade. It covers:

- the importing process and managing the burden on business;
- provision of advice and information; and
- working with customers.

**3.1** The Department aims to make the entry of goods into the UK as easy as possible. Its role is to implement the EU's legislative framework in a way that is efficient and effective for traders, and to provide clear, simple advice and information to enable them to comply with their obligations.

**3.2** The Department has a Public Service Agreement target for the period 2005-2008 to "maintain the extent to which importers, exporters and their agents believe we are striking the right balance between frontier protection and maintaining the UK as a competitive location in which to do business". The Department measures its performance against the target through a question in its annual Customer Satisfaction Survey. A random sample of regular importers, exporters and their agents are asked to respond to the statement, "The UK customs border procedures operated by HM Revenue & Customs have a positive impact on the competitiveness of the UK as a place in which to do business" in terms of whether they agree, disagree or don't know. **Figure 13** shows that there has been a marked improvement in results, with 54 per cent agreeing in 2007-08 compared to 46 per cent in 2005-06.

**3.3** In its Departmental Strategic Objectives 2008-09 to 2010-11 the PSA target above is absorbed into a broader measure on customer experience.

### The importing process

**3.4** Traders face a number of stages in the importing process (Appendix 2). These include completing the declaration, complying with requirements for physical and documentary checks, making use of simplified procedures and duty reliefs available, paying duty, and undergoing post clearance checks. The Department has a role in ensuring each step has a low impact on compliant traders.

### Classification of goods on the Customs Declaration

**3.5** For each import, traders have to complete a declaration including classifying the goods by commodity code. Every commodity has a unique 10 digit code based on its description and composition which determines the duty rate and any restrictions. There are some 16,000 commodity codes. These are contained in "The Tariff". The Tariff is amended regularly and published annually. Paper copies are available annually for £250. Information on commodity codes is available by other methods as discussed below. Classifying goods can be difficult. An example of the complexity of identifying the correct code to use is given in **Figure 14**.

#### 13 The Department's performance against its PSA target

Year	Positive responses %	Negative responses %	Lead of positive over negative
2005-06	46	22	+24 (baseline)
2006-07	58	12	+46
2007-08	54	12	+42

Source: HM Revenue & Customs Autumn Performance Report

## 14 Example of the complexity of identifying the correct commodity code.



A trader applied to the Department for a commodity code for an Easter snow globe with a glass globe, a polyresin base, containing a depiction of bunnies and spring, and playing music. The Department considered that it could fall under the following areas of the Tariff:

- Chapter 39 on polyresin ornaments
- Chapter 70 on glass
- Chapter 95 on festive items
- Chapter 92 on music boxes.

The Department sent it to the EU for a decision. The EU has now issued a regulation stating that snow globes should be classified according to the material of the globe. This is because such goods always have a globe of either glass or plastic, but there will be other features that will vary enormously.

Source: Example supplied by HM Revenue & Customs

**3.6** The Department has various services available to assist traders with classification:

- **Classification helpline** – A dedicated helpline providing advice on classification. The advice given is not binding in law. Nevertheless the service is popular with traders, receiving 180,000 calls in 2007-08, an 11 per cent increase since 2002-03. Call waiting times have improved from 1.19 minutes in 2006-07 to 55 seconds in 2007-08. The Department aims to keep waiting times low but does not have a specific target. The Department also has a number of classification guides available to traders.
- **Binding Tariff Information** – Traders can obtain a written decision on a commodity code from the Binding Tariff Information service. This is legally binding on all EU customs administrations for up to six years. In 2007-08 the Department issued 6,850 binding tariffs, a 33 per cent decrease since 2002-03. Traders believe that applications are falling because of the length of time it takes to issue a binding tariff. The EU allows customs authorities three months to issue a binding tariff, but the Department has an internal target of 40 working days from receipt of all relevant information. In 2007-08 it processed 78 per cent of binding tariff applications within 30 days.<sup>10</sup> The time taken to issue binding tariffs in other EU countries that provide this service ranges from ten days to two months. The Department used to operate a fast track service to issue binding tariffs within 48 hours for a charge of £200. This was withdrawn in 2006 due to resource constraints. The trade have indicated that they appreciated the fast track option.
- **E-Tariff** – part of the UK Tariff containing the commodity codes went live on the Businesslink website in April 2008, enabling traders to check codes online. The Department plans to offer other parts that contain procedural codes online from March 2009. It also offers browse and search facilities and logic tools and is updated daily. Initial feedback has been positive.
- **Workshops** – the Department offers workshops to groups of up to 10 traders in one event for a fee. It ran 11 workshops in 2007-08. They include a session on classification rules, and discussion on specific products on which the attendees require assistance. Traders who have attended the workshops have found them useful. These workshops are also offered to compliance officers to assist them in making classification decisions when auditing traders.

### Submission of the Declaration

**3.7** As part of Government plans for reducing the burden on business of complying with regulations, the Department commissioned KPMG in 2006 to measure the administrative burden of the tax and duty system on UK businesses.<sup>11</sup> The KPMG report estimated that the administrative burden of complying with customs regulations was about £800 million, representing 15 per cent of the total administrative burden.<sup>12</sup> A third of the customs burden related to the declaration, which approximates to a cost of £25 per declaration. While traders may incur administrative costs and use agents to deal with the import process, our consultation suggested that they do not find the declaration process burdensome (see Appendix 1 for consultation processes undertaken).

<sup>10</sup> Although the target is to issue BTIs within 40 days, the Department's systems do not provide results beyond 30 days.

<sup>11</sup> *Administrative Burdens – HMRC Measurement Project*, KPMG 20 March 2006.

<sup>12</sup> Although the Department enforces other departments' regulations, the cost of these has been excluded from the KPMG report.

**3.8** Submission of the declaration is relatively straightforward with over 99 per cent of customs declarations submitted electronically via the CHIEF system.<sup>13</sup> The system is reliable, and in 2007-08 had 99 per cent availability. There are various software systems that link into CHIEF available to traders. Most of the information needed for the declaration is also required and used by other government departments and agencies such as port health authorities, and by the ports and import agents. The software systems draw together information from different sources and combine it in the declaration. The UK is particularly advanced in the integration of CHIEF with port and airport inventory control systems compared with the rest of the EU.

**3.9** The EU's Single Administrative Document Harmonisation project has introduced standard EU data sets,<sup>14</sup> which is advantageous for traders operating in more than one member state. The Department introduced a new declaration form in late 2007. Traders consider that the new form requires more manual input and that the Department could have provided more information. Although information was available to traders through helpdesks, guidance and road shows, this did not provide sufficient detail early enough and there were a series of technical issues in implementing the project. Various lessons from the project include obtaining trader commitment, identifying the scale of change early in the process and understanding the impact of a change in scope part way through, and ensuring resources are available at the critical points of the implementation process.

**3.10** The EU also plans to introduce the Pre Arrival/Pre Departure initiative in 2009. The proposed scheme requires traders to provide information on goods prior to arrival in, or departure from, the EU. The details are yet to be finalised, and traders are concerned about the costs, and whether there will be real benefits for the Department, as it can already access manifest information. They are also concerned that this scheme will divert business away from Europe as trans-shipments could avoid this administrative burden by not going through the EU on route to their final destination.

## Physical clearance of goods

**3.11** The Department clears about 90 per cent of importations immediately without further checks. About six per cent of importations are selected for documentary checks. Traders submit documents to the

National Clearance Hub, which was created in 2007 and is the first centralised Hub in Europe providing 24/7 clearance services. The system is mainly paper based and about 80 per cent of documentation arrives by fax. Some paper checks have been replaced by electronic links such as online licensing checks. The Department is also encouraging traders to send documents by email but in 2007-08 only five per cent were submitted this way.

**3.12** The Hub has a target to clear 95 per cent of entries within two hours of receiving the documentation. For 2007-08 on average the Department cleared 87 per cent within the two hours. Traders want to know with certainty how long clearance will take so that they can arrange onward transport. A two hour turnaround is not necessary for all imports. Some goods, such as those arriving on lorries, need rapid clearance, but in other circumstances it can take on average two days to have a container unloaded and goods ready for transport, so a longer clearance period would not disadvantage traders. Changes to the two hour target may, however, be administratively complex to implement.

**3.13** The Department carried out a survey on traders' views of centralisation.<sup>15</sup> While the survey was not statistically representative, it provides an indication that overall arrangements have improved, although there is a mix of opinion (**Figure 15**).

**3.14** Between two and three per cent of entries are selected for physical examination. Physical examinations can cause inconvenience and cost for the trader if it causes a delay in the release of goods. For security reasons established in law the Department does not notify traders of checks it wishes to undertake until the ship has physically arrived in dock. By this time, the trader will have arranged onward transport. At seaports completion of physical inspections depend in part on how quickly port authorities can retrieve selected containers. Traders appreciate the necessity of physical inspections, but would like more information on when their goods will be released.

## Simplified Procedures and Regimes

**3.15** As permitted under EU legislation the Department runs the Customs Freight Simplified Procedures, which allow traders to complete a simplified declaration at time of import, and submit a supplementary declaration by the fourth working day of the following month. Traders are authorised to use the procedures subject to meeting specified criteria and having a good compliance record. The procedures minimise the formalities at the

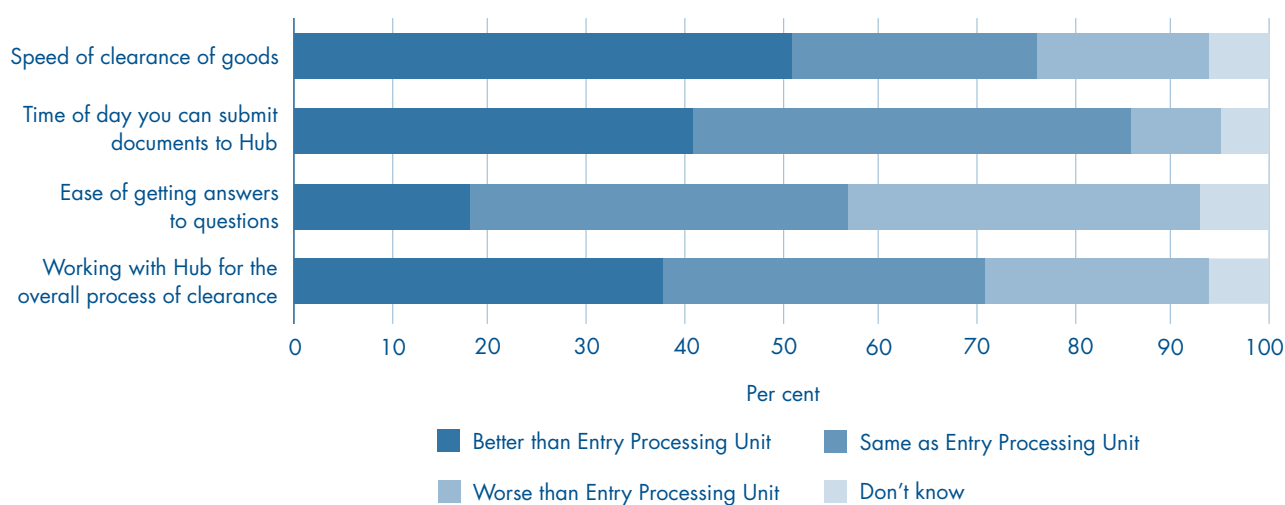
<sup>13</sup> The small number of paper declarations are manually input into CHIEF by the National Clearance Hub.

<sup>14</sup> The data required on the customs declaration is now standardised throughout the EU. However, the declaration itself differs between member states as some of the data requirements are optional.

<sup>15</sup> The survey was carried out in two waves of 100 respondents each in February and July 2007. The majority of people questioned had been in business for more than 10 years.



## 15 Trader views on the centralisation of clearance activities from the Entry Processing Units into the National Clearance Hub



Source: Department's trader survey on centralisation of international trade entry processing procedures

border, allowing the Department to focus resources on high-risk traders while facilitating compliant businesses. While admissibility checks are still carried out, the Department checks all other matters after the goods have entered the country through audits and visits.

**3.16** In 2007-08 84 per cent of imports by volume and 30 per cent by value were imported under these procedures. The EU average by volume is 70 per cent. The Department has approved approximately 800 traders and agents to use the procedures. In total 29,000 traders use the procedures, because freight agents use them on behalf of smaller businesses. This makes them accessible to many businesses at no additional cost.

**3.17** The Department also operates a number of EU duty relief and suspension regimes which allow traders to take advantage of reduced rates of duty or defer payment of duty (Appendix 3). There are 12 main regimes in operation, but because of their complexity it can be difficult for traders to identify the appropriate regime. It is also difficult to find complete information about how to comply with the requirements of the regimes, although the Department's International Trade Single Window project provides clearer information on reliefs via the Businesslink website (see paragraph 3.28). Failure to comply fully with all requirements of a relief can lead to demands to pay back duty. **Figure 16** demonstrates how a simple error can lead to substantial demands to pay back duty.

## 16 Example of the use of a duty relief scheme and the risk of back duty demands

Under Inward Processing Relief, duty is suspended or relieved on goods used in the processing of products to be re-exported outside the EU. There is a specific customs procedure code used to notify the Department when goods are being re-exported.

A number of traders have used the incorrect code at export indicating the goods are community goods instead of non-community goods. Physically the goods have been re-exported correctly and the only error is the failure to notify the Department that the exported goods contained goods that were designated under Inward Processing Relief. The Department has issued back duty on the imports over the last three years.

The Department first discovered the error in a Scottish company; however it soon realised that it was a widespread problem affecting approximately 500 companies. One company owes over £5 million, and the total debt is tens of millions. The traders have already sold the goods, so they cannot recoup the costs. The Department is not able to waive debts once identified as the money is due to the EU.

Source: HM Revenue & Customs

## Payment

**3.18** Traders regard the payment of Customs Duty as relatively straightforward. Ninety-nine per cent is collected via duty deferment arrangements which are also used to pay Import VAT and Excise Duty. This allows traders to defer paying duty until the 15th day of the month following import, delaying payment for between two and six weeks. The Department approves traders up to a limit. Traders require a bank guarantee and banks transfer the payment when due.

## Trader Audits

**3.19** Traders welcome audits in as far as they provide some assurance that they are correctly complying with their obligations, but feedback from traders suggests that they view this as an area where the Department does not perform strongly. Traders find it frustrating to take assurance from a successful audit only for errors to be discovered in subsequent audits and back duty demands issued, and they would appreciate more feedback so they can improve their systems and controls. They also find that the burden of audit increases when Departmental staff lack an understanding of the industry sector, and the skills and knowledge appropriate to carry out an efficient and effective audit. There is a view within Local Compliance that the grading of the officers is too low for the complexity of the work.

**3.20** While the Department's strategy to limit the number of checks carried out at the border has brought benefits to traders, it has also brought some uncertainty about whether they are paying the right amount of tax and duty, and the risk of sizeable back duty demands if they make a mistake.

**3.21** In January 2008 the EU introduced a new initiative called Authorised Economic Operator (AEO). Traders can obtain AEO status after the completion of a full audit to show that their systems and processes meet certain security standards. This will ultimately entitle them to speedier clearance at the border. Traders have expressed concerns that the audits are resource intensive for the trader and that the benefits in obtaining AEO status minimal. Traders also have concerns that the Department does not have adequate resources to carry out audits to the level required by the EU. As of April 2008, less than 100 traders had applied against Department predictions of 2,000 during 2008-09. These relatively small numbers are currently manageable but peaks in numbers and

geographical concentrations of applicants could put pressure on stretched local resources, thereby putting at risk completion of audits in accordance with trade expectations and EU obligations.

## Voluntary Compliance

**3.22** As part of their normal business, traders carry out their own checks, and may discover under or over payments. Under EU legislation, traders have to correct errors on an entry-by-entry basis, so they have to submit separate schedules for under and over payments rather than a single schedule. The Department has initiated discussions with the European Commission to allow a single schedule. There are differences in the processes for correcting under and over payments (**Figure 17**), and traders regard applying for repayments as one of the more onerous areas.

**3.23** The Department has 30 working days to decide and issue the repayment from when it receives complete information.<sup>16</sup> In 2006-07 the Department agreed 95 per cent of authorised repayments in 25 days. It has been reviewing its procedures for dealing with repayments. It plans to introduce, subject to a feasibility study, an online repayment procedure on the Businesslink website from late 2008-09.

## Reviews and Appeals

**3.24** The EU requires member states to have a two tier appeal process. The UK's process is:

- Formal Department review, which is independent of the original decision-making officer but not of the HM Revenue & Customs Commissioners.
- Appeal to an independent Tribunal – a trader has 30 days to request an independent appeal after receiving a review decision.

### 17 The processes of correcting under and over payments

#### Correcting under payments:

In cases where the Department or the trader identifies an underpayment of duty, a back duty demand is issued without further checks.

A back duty demand should be paid in 10 days. An additional five day waiver period can apply if full payment is received by day 15. Otherwise interest will be charged from day 11.

Interest is charged on the unpaid duty at 8.5 per cent from day 11 onwards, with a minimum charge of £25.

*Source: National Audit Office analysis of HM Revenue & Customs data*

#### Correcting over payments:

To request a repayment, a trader submits a Form C285 with evidence. The C285 is simple to complete but it can be difficult to produce all the necessary evidence required.

HMRC has 30 working days to make a decision and issue the repayment if the trader has submitted a valid application accompanied by valid supporting information.

Traders have to apply for interest due if the 30 days is exceeded. The interest rate is currently 5 per cent.

<sup>16</sup> The Department also has a fast track service for repayments of less than £500.

**3.25** The Review and Appeals team plays an important role in providing feedback to decision-making officers on how their decision could have been clearer for the trader, and also in highlighting good practice. There are many reasons why traders request reviews, including the fact that they sometimes do not understand the reason for the original decision. In 2007-08 1,438 reviews were completed and 71 per cent of cases were resolved in the Department's favour.<sup>17</sup> Often traders are satisfied that someone independent has considered the decision and examined the legal basis or reasonableness of the decision. There were 234 appeals initiated. About 70 per cent of appeals were decided in the Department's favour.

**3.26** Some traders that have been involved with reviews have a perception that the review process is not fully independent. The Reviews and Appeals team was previously based in the regions and there was some inconsistency in approach. It was centralised in January 2005 to consolidate expertise and improve the consistency, fairness and equity of decisions.

## Provision of advice and information

**3.27** The rules on what traders can import to the EU and the taxes payable are complex and governed by extensive legislation. While the Department has limited scope to change the legislation, it has an important responsibility to provide clarity in what traders need to do to comply with their obligations.

**3.28** The Department makes information available in a variety of ways. We gathered customer views on the main methods of providing advice and information by consulting members of the Department's consultative forum, the Joint Customs Consultative Committee and other traders (see Appendix 1 for the methodology). **Figure 18 overleaf** summarises the results in terms of a qualitative evaluation of the effectiveness of each method. Full details supporting the assessment are in Appendix 8. Overall traders consider that the Department is one of the better customs authorities for providing information, but they sometimes find it difficult to determine whether they have the most up to date and complete information.

**3.29** Discussion with traders highlighted the following points:

- **National Advice Service** – The Service uses scripts for key questions and is good at providing simple information. However, traders have reported a lack

of consistency and accuracy in the advice provided. A cause of this may be that the trader needs to ask the question in the 'right way'.

- **Units of Expertise** – The Service can consult six units of expertise on more complex queries. These are internal resources and traders cannot contact them directly, although they do also provide support to Local Compliance and the Large Business Service. There can be a delay in the trader receiving the required information if the right question is not asked.
- **HM Revenue & Customs website** – The website is well regarded for the volume of information it contains, however it is difficult to navigate and find the required information.<sup>18</sup> There are gaps in some areas and some pages are out of date. The Department now refers traders to the Businesslink website as the main source of information on customs activities, for example via links on the Departmental website.
- **Businesslink website** – The customs section of Businesslink went live in November 2006. It contains clear and understandable information, and is a single site containing access to 86 cross-governmental guides. Part of the Tariff containing commodity codes was made available online in April 2008, and it is planned to make other parts available from April 2009. Although the website is still in development, surveys of traders have given positive feedback.
- **Public Notices** – Public Notices give a good overview, but there are some gaps in content.
- **Classification helpline** – covered in paragraph 3.5.
- **International Trade Development Liaison Officers** – The trade find these visits very useful and feel that there is scope for this service to be extended.
- **Targeted Education, Enabling and Leverage team** – Involved in contacting traders and providing education, mainly by post or phone and attendance at Business Advice Open Days and seminars or workshops. Some traders consulted had had no personal experience.
- **Customs Information Papers** – These are generally found to be useful and are widely available.

<sup>17</sup> If the Department does not meet the EU statutory time limit to complete a review in 45 days, the case is deemed in the Department's favour. Traders are notified of this decision and have the right to go straight to appeal. However, the Department will perform a reconsideration – a full review under a different name. The number of deemed cases increased in 2007: in 2006-07 85 cases were deemed; in the six months to September 2007 204 cases were deemed.

<sup>18</sup> *HM Revenue & Customs: Helping individuals understand and complete their tax forms*, HC452 2006-07 is a wider review of the types of communication between the Department and individual taxpayers and examines whether forms and guidance are easy to obtain, easy to understand and accurate and complete.

## 18 Scorecard summarising the different methods of providing information

Method	Description	Accessibility	Usability	Effectiveness	Reliability & Clarity
National Advice Service	Telephone helpline that deals with enquiries on former Customs and Excise matters.	●	●	●	●
Units of Expertise	Internal resource. Traders cannot contact them directly.	●	N/A	N/A	N/A
HMRC website	Contains information on all the Department's activities and includes Public Notices.	●	●	●	●
Businesslink website	Government portal for business.	●	●	●	●
Public Notices	Explain customs legislation, regimes and procedures.	●	●	●	●
Classification Helpline	Helpline providing advice and information on classification of goods.	●	●	●	●
ITDLOs	International Trade Development Liaison Officers. Provide seminars on customs changes.	●	●	●	●
TEEL Officers	Targeted Education, Enabling and Leverage team. Provides education to businesses, particularly new traders.	●	●	N/A	N/A
Customs Information Papers	Papers on aspects of international trade published on the Department's website.	●	●	●	●

● Provides information effectively  
● Broadly appropriate in providing information but could be improved  
● Does not provide information effectively

Source: National Audit Office analysis of the views of the Joint Customs Consultative Committee and traders

**3.30** The Department provides information in various other ways, including other liaison officers and extensive publicity campaigns for specific projects. For businesses in the Large Business Service, their Client Relationship Manager is a key source of information. This is a single point of contact within the Department with access to various experts.<sup>19</sup>

### Working with customers

**3.31** It is important for the Department to understand the impact that operational or policy changes have on business, particularly as it makes representations to the EU on behalf of the UK, and translates EU policy into UK systems. The Department uses the Joint Customs Consultative Committee (JCCC) to increase its understanding of businesses. The JCCC, established in 1971, has several sub groups and is appreciated by the trade. The trade also considers that the Department does a better job in engaging and consulting compared to other EU countries.

**3.32** The Department attends trade meetings, providing updates on customs developments and seeking feedback from businesses, which gain direct access to senior policy staff. They also give the Department opportunities to gather the views of a range of businesses such as small traders, large multinationals, logistics companies, freight forwarders, carriers and software providers.

**3.33** In the trade view, the Department lacks commercial awareness. The Department could broaden its understanding of international trade customers by analysing information it collects through other methods of contact. Use of this information could highlight areas for improvement and distil lessons learnt more systematically. The incomplete information flows between operational teams and the policy team can mean that information collected at a local level is not fed back to progress learning. Sources of feedback include:

- recurring questions to the telephone helpline;
- findings from inspections and audits;
- main reasons for issuing demands to collect unpaid duty; and
- reasons for reviews and appeals.

**3.34** There are many changes being made to the importing process currently. Consultation with the JCCC and traders suggests that the main burdens for traders arise from change. Changes are planned to 2015 under the EU's Multi Annual Strategic Plan, aimed at delivering a fully electronic and joined-up customs environment, and the Department's Customs Services Transformation Programme. Although the changes are aimed at introducing simplified systems and benefit some traders, the process of gradual change means that traders are facing several years of modifying or developing new processes and systems.

<sup>19</sup> The NAO report on *HM Revenue & Customs: Management of Large Business Corporation Tax* published in July 2007 gives further information on the role of the Client Relationship Manager.

# APPENDIX ONE

## Scope and methodology

### Scope of the study

**1** This report examines the approach of HM Revenue & Customs to managing imports to the UK from outside the European Union. The National Audit Office has previously examined this area in its report *Stopping Illegal Imports of Animal Products into Great Britain* published in March 2005.

**2** The Department is responsible for ensuring that importers comply with EU and UK legislation. Its responsibilities fall in the following broad categories:

- Fiscal:** Collecting customs duties and import related VAT.
- Economic:** Facilitating imports in a way that maintains the UK as a good place to do business, and supporting UK and the EU businesses by providing a level playing field.
- Social and Physical:** Enforcing controls over the import of prohibited and restricted goods such as drugs and firearms, and endangered species; and countering threats to the UK including terrorism and diseases, such as avian influenza.

**3** Our methodology included:

- analysis of the Department's finance and management data to evaluate its performance;
- assessment of risk management procedures and risk workshop with departmental staff;
- consultation with members of the Joint Customs Consultative Committee and traders;
- review of the Department's internal governance structure;

- benchmarking the UK's customs activity against other EU states through meetings with the European Commission and review of European Court of Auditors reports; and
- use of an advisory panel to test our findings and conclusions.

### Financial and Data Analysis

**4** We analysed Department data on the management of international trade. These included:

- Customs Duty and Import VAT revenues over the last five years.
- Local Compliance and the Large Business Service audits and additional yield from the audits, including analysis of yield from different trader groups.
- Analysis of the documentary checks at the frontier including performance on clearance, quality checking and number of irregularities.
- Analysis of the physical examinations at the frontier including performance on targeting irregularities, risk profiles, volumes and international benchmarking.
- Data on issue of back duty demands.
- Analysis of performance on the classification helpline and Binding Tariff Information service.

**5** We also reviewed the Department's assessment of its performance against its PSA targets:

- Target 9 to improve its identification of irregularities to 27 per cent from a baseline of 18 per cent of examinations.
- Target 10 to maintain the extent to which importers, exporters and their agents believe it is striking the right balance between frontier protection and maintaining the UK as a competitive location in which to do business.



## Risk Analysis and Workshop with Departmental Staff

**6** We engaged a risk expert from PwC to work on the audit team, and analyse the Department's performance in risk management against standard criteria from the Standardised Framework for Risk Management in the Customs Administrations of the European Union (EU) 2007.

**7** We ran a workshop in January 2008 with key people involved in the risk management process from various directorates across the Department including:

- Detection
- National Processing
- Large Business Service
- Local Compliance
- Knowledge, Analysis and Intelligence
- Risk and Intelligence
- Customs and International

**8** The objective of the workshop was to understand the risk management arrangements in place to assist in targeting limited resources to controlling imports. This includes the risk profiling and targeting arrangements for all forms of shipment (air, sea and courier) in place at both the frontier and inland. The workshop comprised three sessions covering the Department's risk management processes and information flows, discussion and analysis of what works well and what works less well in the system, and discussion of possible improvements to the system. Further details on the outcomes are provided in Appendix 8.

## Consultation with the Joint Customs Consultative Committee and Traders

**9** We engaged Vivas Consultancy to run a workshop, attended by members of the Joint Customs Consultative Committee and representatives from businesses involved in the importation of goods, including importers, freight forwarders and ports. It provided us with the views of people involved in the import process, of their experiences of dealing with the Department and the impact on their business. The workshop addressed the trader perspective of the following areas of the Department's work:

- Education – what does the Department do to help you follow the correct processes?
- Customer burdens – what are the key customer burdens?
- International Trade Processes – how easy is it to use the various international trade processes where customers have contact with the Department?

**10** We structured the workshop into four smaller focus groups to cover subsets of the three main questions. For example, under education, we looked at the provision of advice and information, the Department's role in training, and the effectiveness of consultation mechanisms. A list of attendees is in the box below.

Barbara Scott, Customs Practitioners Group  
 Bob Dart, Royal Mail  
 Christopher Starns, British International Freight Association  
 David Merritt, JP Morgan  
 Gavin Roberts, Food and Drink Federation  
 Gordon Tutt, British Airways Cargo  
 Howard Levene, Automated Customs and International Trade Association  
 Ian Worth, Intel Corporation (UK) Ltd  
 Stephanie Cull, Woolworths  
 Joe O'Connor, Association of International Courier and Express  
 John Batchelor, UK Warehousing Association  
 John Mugridge, Airbus  
 John Powell, Port of Dover (for the British Port Association)  
 Mark Corby, BAE Systems  
 Mike Hodge, Customs Practitioners Group  
 Nigel Smedley, Jenny Packham  
 Peter Cullum, Road Haulage Association  
 Sue Garstone, Maritime Business Manager CNS  
 Peter MacSwiney, Community Systems Provider  
 Alan Gough, DSGI Plc  
 Graeme Nimmo, Chartered Shipbrokers  
 Philip Challen, General Electric  
 Richard Ballantyne, British Ports Association

**11** We attended meetings of the Customs Practitioners' Group and Automated Customs and International Trade Association in order to engage in group discussion with organisations involved in international trade. We also carried out individual interviews with traders, associations and agents to obtain a wider spectrum of views and information on practical experiences of dealing with the Department. Details of meetings held are in the box below.

#### Individual Interviews with Associations, Traders and Agents

Association of Freight Software Suppliers  
 British International Freight Association  
 British Chambers of Commerce  
 Freight Forwarders  
 Grosvenor International Systems  
 Halsall International  
 John Lewis Partnership  
 Maritime Cargo Processing  
 Mike Hodge Associates  
 SITPRO  
 Truebell plc  
 UK Warehousing Association

## Review of the Department's Internal Governance Structure

**12** We used criteria drawn from selected good practice governance codes to assess the Department's governance structure. We also reviewed the strategy for managing international trade and the reporting mechanisms. More details on the method applied can be found in Appendix 5.

## The UK's position in the EU

**13** We reviewed audit reports showing the European Court of Auditors' assessment of the Department's management of various aspects of international trade, in particular Customs Warehousing and management of Customs Freight Simplified Procedures.

**14** We also reviewed the EU document *Measurement of Results* which compares the performance of the 27 member states. We met with European Commission representatives to get a broader understanding of the UK's performance relative to other member countries. This enabled us to benchmark the UK's performance against a European average.

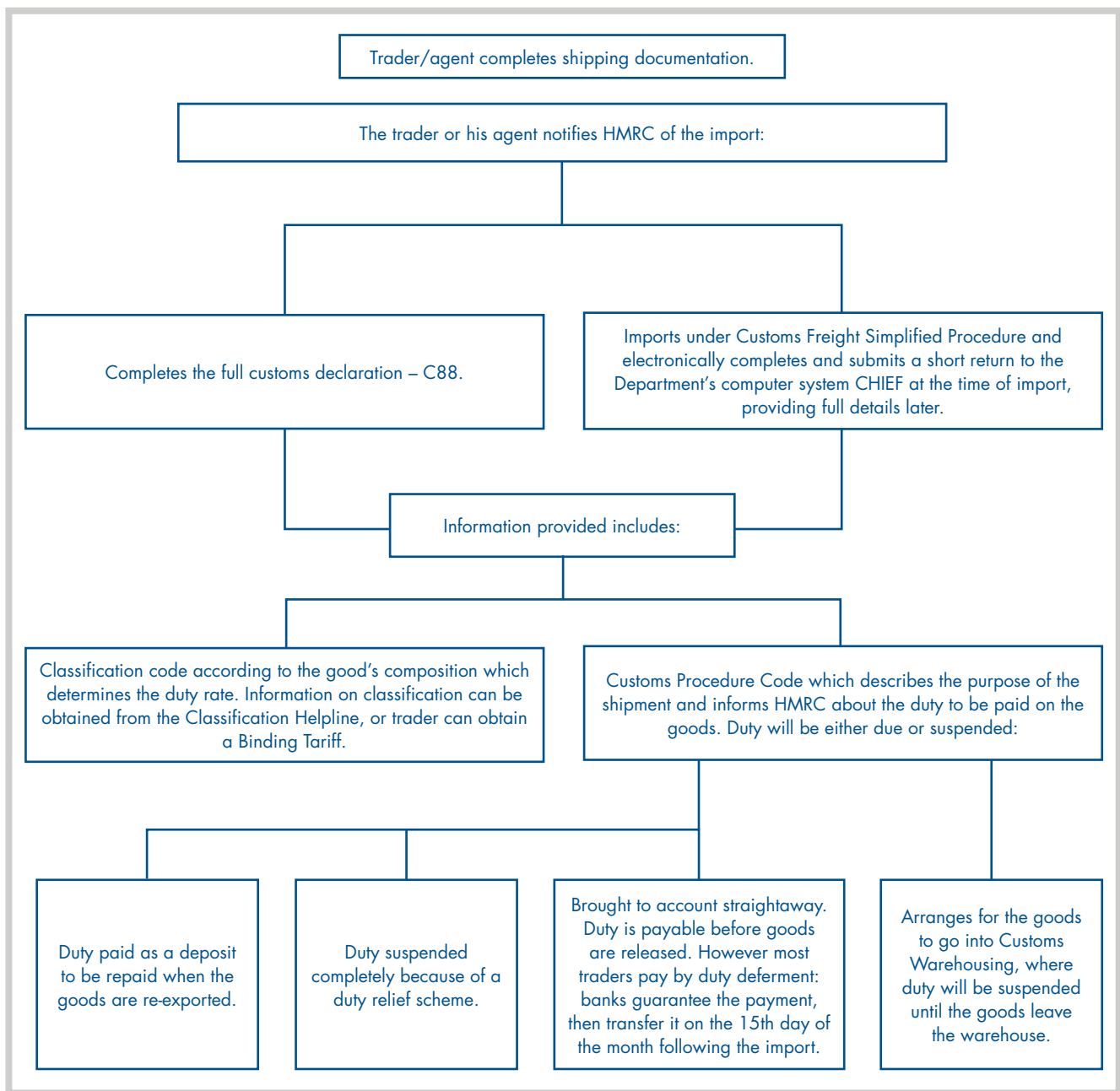
## Advisory Panel

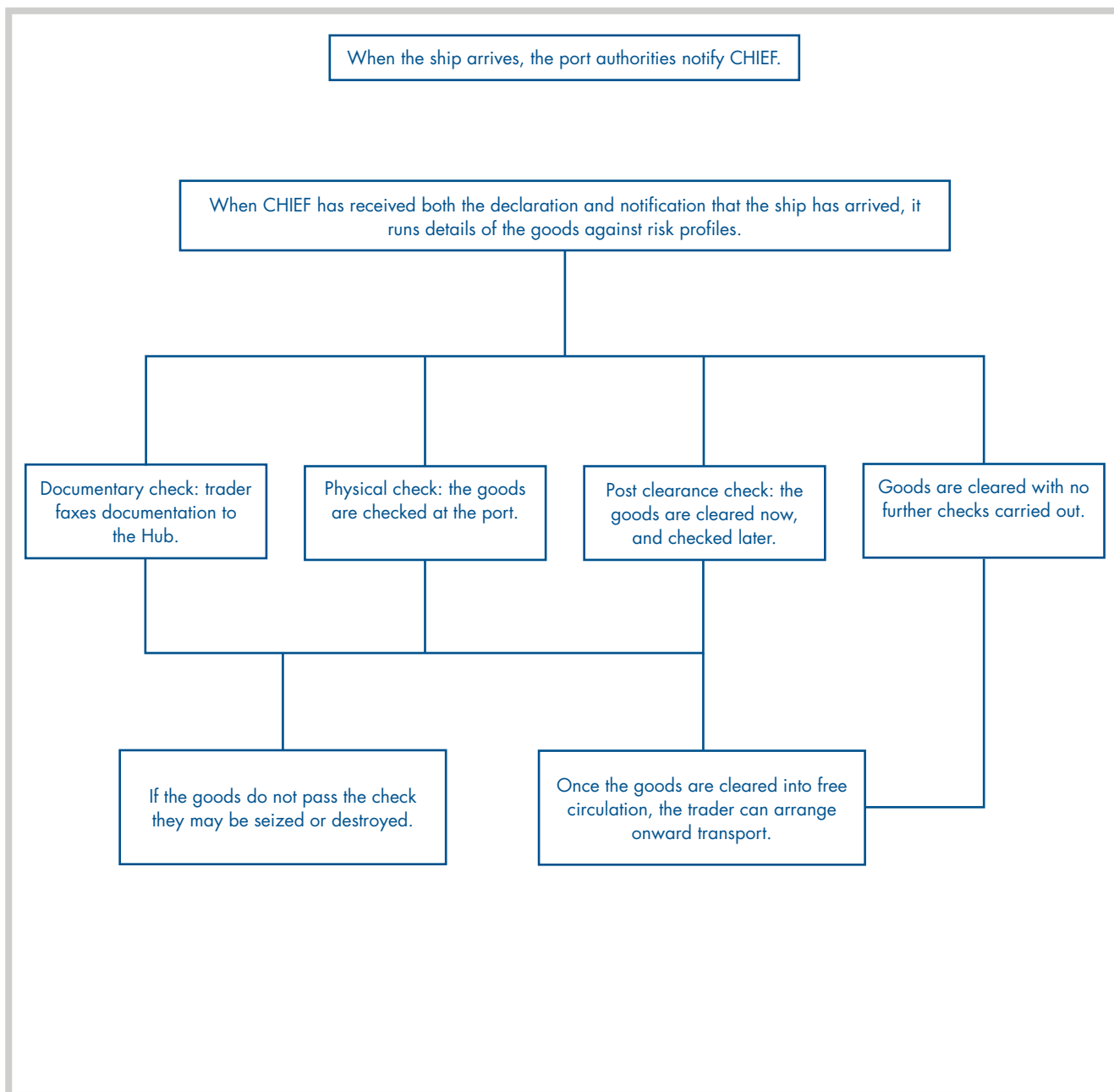
**15** We established an Advisory Panel to provide expert advice on the emerging findings, conclusions and recommendations from our fieldwork. We selected the membership of the panel to provide a spectrum of external perspectives and expertise. We would like to thank each member for their contribution.

Michael Booth, Confederation of British Industry  
 Joe O'Connor, Association of International Courier and Express  
 Barbara Scott, Customs Practitioners Group  
 Gillian Scott, John Lewis  
 Christopher Starns, British International Freight Association  
 John Powell, Port of Dover (for the British Ports Association)  
 HMRC representatives also attended

# APPENDIX TWO

## Overview of the importing process





# APPENDIX THREE

## Overview of the facilitation schemes available to importers

1 There is a wide range of reliefs from customs duty and/or VAT. These are detailed in the table below. Reliefs should usually be claimed at the time of import.

Relief	Description
Inward Processing Relief	Relieves customs duties on non-EU goods imported to be used in the processing of products which are intended to be re-exported outside the EU for the time required to enter, process and dispose of the goods.
Outward Processing Relief	Provides duty relief on non-EU imports of goods which have been produced from previously exported EU goods. When re-imported, a reduced level of import duty and VAT may be available subject to certain conditions.
Returned Goods Relief	Provides relief on goods exported temporarily which will be returned. This may be because an overseas customer returns broken or incorrect goods. It can also be used for the purchase of goods abroad which had originally been exported from the EU customs union.
Temporary Importation Relief	Provides relief from customs duty, specific customs duty (previous CAP Charges), Anti-dumping duty and countervailing duty on goods temporarily entering the EU, for example goods entering the country for an exhibition or samples. Goods must not be processed or repaired other than routine maintenance necessary to preserve them in the condition in which they were imported.
Customs Warehousing	Customs Warehousing is a storage procedure whereby the payment of customs duties and/or Import VAT can be suspended or delayed when non-Community goods are stored in a defined location or under an inventory system authorised as a customs warehouse.
End Use Relief	This relief is designed to promote certain EU industries and trades. It applies only to duty: any VAT or Excise Duty must still be paid. A company needs to be authorised to import or receive end use goods.
Processing under Customs Control	Allows certain raw materials or components to be imported under duty suspension arrangements for processing and subsequent release to free circulation in the EU.
Aircraft Spare Part Depots	Used for storing goods for: <ul style="list-style-type: none"> <li>■ non-UK airlines for the maintenance of their own aircraft;</li> <li>■ UK and other EU Airlines for the maintenance of aircraft owned and operated by other non UK airlines for whom they act as agents; or</li> <li>■ aviation, engineering and maintenance companies.</li> </ul>
Free Zones	A Free Zone is a designated area where goods imported from outside the EU can be stored with payment of import duties suspended. VAT and Excise Duty are also suspended until the goods are removed to the UK market or consumed within the Free Zone. There are currently five Free Zones in the UK based in Liverpool, Prestwick, Sheerness, Southampton and Tilbury and a further one in the Isle of Man.
Rejected Imports Relief	Defective or damaged goods may be returned to the overseas supplier after an import has taken place and the duty and VAT has been paid. This relief is used to allow a reclaim of duty.



Relief	Description
Community System of Duty Reliefs	<p>This is the collective term for a number of different conditional reliefs designed to promote educational, scientific, social and cultural advancement by allowing certain goods to be imported free of customs charges. Examples of goods which may qualify for relief include:</p> <ul style="list-style-type: none"> <li>■ those imported by charities for the benefit of needy people;</li> <li>■ goods for the disabled;</li> <li>■ museum and gallery exhibits;</li> <li>■ scientific research equipment;</li> <li>■ commercial samples; and</li> <li>■ goods for examination, analysis and test.</li> </ul>
Onward Supply Relief	<p>A relief from Import VAT for goods imported into the UK from outside the EU by a UK VAT-registered trader in the course of an onward supply of those actual goods to another member state.</p>
Tariff preference	<p>The Department also operates Tariff preference arrangements and approximately 15 per cent of all non-EU imports are made under this scheme. The European Commission numerous preferential trade arrangements enable goods to be imported at reduced or nil rates of customs duty, sometimes within the limits of annual first come, first served tariff quota restrictions, if they are covered by a valid proof of preferential origin and meet the appropriate rules of origin in the exporting country.</p>

# APPENDIX FOUR

## Prohibitions and restrictions

1 To protect the UK from social and physical risks, some goods are banned completely from being brought into the UK, and others are restricted and require authority, such as a licence, to be imported.

### Prohibited goods (goods which are banned completely)

Goods	Detail
Unlicensed drugs	Includes heroin, morphine, cocaine, amphetamines, barbiturates, LSD and cannabis.
Offensive weapons	For example flick knives, butterfly knives, push daggers, belt-buckle knives, death stars, swordsticks, knives disguised as everyday objects, knuckledusters, blowpipes, spring-operated telescopic truncheons, and some martial arts equipment.
Indecent and obscene material featuring children	Such as books, magazines, films, videos, DVDs and software, and pornographic material, other than that which depicts the type of consensual sexual activity between adults which can be legally purchased in the UK.
Obscene material	Depicting extreme violence.
Counterfeit and pirated goods and goods that infringe patents	Commonly goods such as watches and CDs, and any goods with false marks of their origin.

### Restricted goods (one or more licence required)

Goods	Detail	Government Department or Agency
Agricultural produce	Common Agricultural Policy licences may be required to control the import or export of some agricultural produce, whether raw or processed, to restrict the quantity of particular types of goods being imported from a certain country, or to restrict the quantity of a product which gets a preferential rate of import duty.	Rural Payments Agency (RPA)
Agricultural produce, animals, animal products and plants	For the import and export of meat, poultry, dairy products, some other foodstuffs, livestock, blood, plant or plant products, endangered species or fur, a DEFRA licence, permit, certificate of conformity and/or Common Veterinary Entry Document is usually required. In general all plants and some plant products must be accompanied by a phytosanitary certificate.  The import or export of all types of <i>Dissostichus</i> species of fish, i.e. Patagonian Toothfish or Chilean Sea Bass, requires a Catch Document issued by the CCAMLR through DEFRA.  In certain cases additional and/or separate approval is required by the relevant authority for Scotland, Wales and Northern Ireland.	Department for the Environment, Food & Rural Affairs (DEFRA)  Convention on the Conservation of Antarctic Marine Living Resources (CCAMLR)

<b>Goods</b>	<b>Detail</b>	<b>Government Department or Agency</b>
Ozone Depleting Substance	The import or export of certain ozone depleting substances and products which contain them (for example certain fridges or aerosols) is either prohibited or requires the authority of an import licence issued by the European Commission. In the UK this is handled by DEFRA.	European Commission (EC)
Timber and forestry products	The import of certain types of timber and forestry products must be covered by an inspection document issued by the Forestry Commission.	Forestry Commission
Chemicals and other substances	HSE is the UK Competent Authority for administering approvals for the import and export of many chemical substances. These include: <ul style="list-style-type: none"> <li>■ Chemicals that are subject to “Prior Informed Consent” legislation; these include asbestos products,</li> <li>■ Chemicals subject of “Persistent Organic Pollutants” legislation e.g. pesticides, herbicides, etc.</li> <li>■ Carcinogenic Substances – certain material, covered by the Control of Substances Hazardous to Health 1988. Regulations are banned unless covered by an exemption certificate, but otherwise are covered by PIC requirements.</li> </ul>	Health and Safety Executive (HSE)
Works of art, antiques and collectors’ items, etc.	A DCMS licence is required for the export from the UK of certain heritage items, e.g. works of art, antiques and collectors’ items.	Department of Culture, Media and Sports (DCMS)
Military, security and paramilitary equipment and goods	There are various departments involved in the scrutiny of Export Licence Applications for military, security and paramilitary equipment and goods. These include the Department for International Development, the Ministry of Defence, and the Department for Business, Enterprise and Regulatory Reform.	Various
Radio equipment	The import of certain radio equipment (particularly if it transmits the human voice) may be prohibited except with the authority of an import licence issued by Ofcom.	Office of Communication (Ofcom)
Trans-frontier Shipment of Waste (TFS)	The EA is the UK Competent Authority for enforcement of TFS legislation for the import and export of waste shipments for disposal, recovery or recycling etc. Such shipments can entail notification or consent procedures.	Environment Agency (EA)
Diamonds	The import and export of rough diamonds from or to outside the EU requires an original “Kimberley” certificate issued by the FCO Government Diamond Office.	Foreign and Commonwealth Office (FCO)

# APPENDIX FIVE

## Governance processes

We examined the Department's governance processes by looking at four key elements, namely structure, strategy, reporting and working together.

Element	The test	Assessment
Structure	Is there a structure in place that delivers accountability?	<ul style="list-style-type: none"> <li>■ The matrix operating structure is complex with processes and decisions requiring the involvement of many directorates.</li> <li>■ Expertise in a highly specialised area is fragmented across the organisation.</li> <li>■ The business of international trade is a niche element within each larger directorate with the feeling from staff of being isolated and their business having low priority.</li> <li>■ Resources for each activity are held and allocated locally although there is top-level discussion around priorities (see below).</li> <li>■ There is blurred accountability for international trade with dependence on consensus rather than through direct command.</li> <li>■ The multitude of areas involved and the complexity of the end-to-end process compromises the ability of the policy areas to influence resource and priorities in the delivery arms. The policy area therefore has difficulty in holding the business areas accountable for performance and use of resource.</li> </ul>
Strategy	Is there a defined strategy that charts the way forward?	<ul style="list-style-type: none"> <li>■ In the past there has been a lack of clear vision for international trade. The Customs and International Directorate is in the process of developing a customs operational framework, which will set the objectives, priorities and resourcing and reporting for international activities.</li> </ul>

Element	The test	Assessment
Reporting	Is it clear what the performance is?	<ul style="list-style-type: none"> <li>■ Reporting against PSA targets is consistent, defined and comparable.</li> <li>■ Outside of the PSA targets management information is dispersed and incomplete.</li> <li>■ The various directorates involved in managing an aspect of international trade each have their own recording and reporting systems but the information is not always widely available across the Department or easily comparable.</li> <li>■ Feedback routes are not well-defined, meaning that learning and decision-making is not adequately supported by historic data.</li> <li>■ The Department is seeking to define key performance indicators and set reporting to measure progress against these objectives through the customs operational framework.</li> <li>■ There are opportunities for the Department to define real and proxy measures to evaluate markets. As an example, the Home Office measures the overall UK drug market to enable it to assess the impact of combined Home Office and HM Revenue &amp; Customs activities in the area of drug enforcement. The same approach could be used in other areas for which the Department is co-responsible such as counterfeit goods or firearms.</li> </ul>
Working together	Are all elements working together effectively?	<ul style="list-style-type: none"> <li>■ The Customs and International directorate have taken the lead to improve the alignment of objectives, accountability and reporting at the operational level through the creation of the Customs Strategy Delivery Group.</li> <li>■ Joint working is currently taking place bottom-up across the Department but is not embedded or consistent.</li> <li>■ Benefits of working together across the Department can be seen where staff have moved between business units, across different delivery areas and also between delivery and policy, and a fresh perspective and wider existing networks have allowed localised good practice to be multiplied and shared across the business.</li> </ul>



# APPENDIX SIX

## Trader audit risk processes

**1** The Large Business Service (LBS) and Local Compliance (LC) assure the fiscal side of imports by carrying out audits. Companies are selected on a risk basis, and assurance work carried out may be an audit into an aspect of international trade, such as compliance with Customs Freight Simplified Procedures (CSFP) or warehousing requirements; or may be a full audit.

### Large Business Service

**2** The LBS is structured by business sector. Every company is assigned a Customer Relationship Manager (CRM), to whom all questions can be addressed (see the Comptroller and Auditor General's report on *The Management of Large Business Corporation Tax*, July 2007). There are experts in various different taxes within the LBS and the CRMs can use them to assist with answering complicated questions.

**3** LBS has recently restructured its international trade area putting together a cross-sector team of about 110 international trade experts. This team became functional in March 2008.

**4** To select companies for audit, LBS develops a generic set of import risks for each industry sector, informed by the mandatory work required to be completed and specific risks identified by regime. This forms the basis for creating a local assurance plan. The designated CRM then assesses the company against the identified risks to determine which may apply. In discussion with international trade specialists they scope projects and allocate resources to address these risks and drive the necessary assurance work. With constraints on resource, projects are selected for action in the following priority order:

- 1** Demand-led Work – mandatory (primarily EU-driven)
- 2** Proven Risk
- 3** Potential Risk
- 4** Random Work

**5** For each of the projects the specified assurance work is then undertaken to control the identified risk. This takes the form of a combination of audit inspections and supply chain integrity checks, including compliance with CFSP, and Customs Warehousing. Due to the geographic spread of resources, the LBS may use regional assurance teams located within Local Compliance to undertake some projects. On completion of similar assurance projects at more than one company, the LBS undertakes an evaluation of the findings to monitor performance and feedback lessons learnt into future planning work to improve the identification and assessment of emerging risks.

### Local Compliance

**6** LC carries out assurance work on all but the largest companies dealt with by LBS. LC staff are usually skilled in a variety of taxes, but international trade is a complex area and therefore there are specialists working on the taxes involved.

**7** LC follows a similar but separate risk management approach to LBS. The Department's Risk and Intelligence Service in regional teams review the national work programme expectations, for both mandatory and risk-based work. They then develop local plans to also include the risks identified in the regional trader community and balance the overall workload to the resources available to undertake the work. Using this local knowledge drawn from consultation with the Local Compliance audit teams, the Risk and Intelligence Service scope a number of projects to be completed that balance demand-led work, national priorities and locally identified risks. For each of the projects a local work programme is developed setting out the objectives and controls to be reviewed.

**8** The local trader community is assessed by the Department's central analysts in the Knowledge, Analysis and Intelligence Directorate against a set of common risk criteria such as size and number of import declarations. Using these general trader groupings the central risk service 'sift' these traders against a number of other criteria to target the higher risk traders, given the available resources. In addition, periodically the risk service will run projects to review lower risk traders as a means of validating their risk assessment of traders.

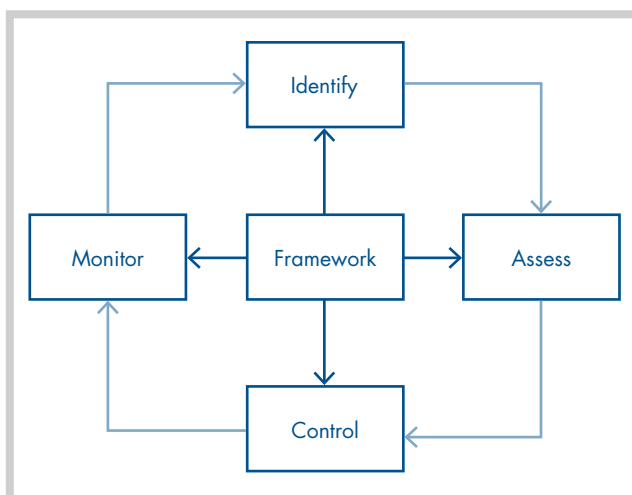
**9** A report is completed on each assurance intervention against the project objectives. Once 50 per cent of assurance tasks are completed the Department's risk service undertake an evaluation based on tax yield, and when over 80 per cent of assurance tasks are completed they undertake a full evaluation of the project. These evaluations are used to inform future planning work and monitor performance against the risk assumptions made.

# APPENDIX SEVEN

## Risk management processes

1 The Customs EU definition of risk management is 'a technique for the systematic identification and implementation of all measures necessary to limit the likelihood of risk occurring. International and national strategies can be effectively implemented by collecting data and information, analysing and assessing risk, prescribing action and monitoring outcomes'.<sup>20</sup> To assess the Department's risk management arrangements we have used the EU Customs definition of risk alongside the risk management models set out in HM Treasury Orange Book 2004. The key elements of review are:

- **Establishes the framework**
  - Does it have a contextual understanding of the environment?
- **Identifies risk**
  - Does it draw on experience and intelligence from a number of sources in a comprehensive manner so that areas of risk are not overlooked?
- **Assesses risk**
  - Is it undertaken within a shared framework and common criteria to provide confidence and support prioritisation and decision-making?
- **Controls risk**
  - Is it clearly set out and aligned with the organisation's assurance arrangements to ensure completeness and avoid over-control or duplication?
- **Monitors risk**
  - Is there clear and regular communication against the risks identified and assessed to enable management to intervene on a timely basis?



2 The Department's risk management processes are evaluated in the context of managing the risks reflecting the fiscal, security, physical and economic threats and opportunities facing the UK. The table below gives our assessment against each element.

<sup>20</sup> EU standardised framework for risk management in customs administrations of the EU 2007.

Framework	<ul style="list-style-type: none"> <li>■ Building blocks are in place across the Department.</li> <li>■ Need for better coordination, accountability and performance management.</li> <li>■ Not doing enough risk-based assurance work.</li> <li>■ The Customs and International Directorate is in the process of developing a customs operational framework, which will set the objectives, priorities and resourcing and reporting for international trade activities.</li> </ul>
Identifying	<ul style="list-style-type: none"> <li>■ Clear focus via annual planning work on risks by regime.</li> <li>■ Risk identification is fragmented against isolated objectives and limited feedback.</li> <li>■ No structured risk testing built into work programmes to monitor for emerging risks.</li> <li>■ There are Service Level Agreements in place with other Government departments for work they require. However the SLAs have limited or no risk assessment or defined outcomes.</li> </ul>
Assessing	<ul style="list-style-type: none"> <li>■ Assessment activity taking place independently across various directorates involved in international trade.</li> <li>■ No consistent assessment approach to enable comparative and aggregate risk view.</li> <li>■ Focus on proven, not potential, risk without setting expected outcomes – risk to resource rather than resource to risk.</li> <li>■ No definition of outcome or output measures for risk intervention are set e.g. no tax gap defined for Customs Duty or market in counterfeit goods. There are opportunities for the Department to define real and proxy measures to evaluate markets.</li> </ul>
Controlling	<ul style="list-style-type: none"> <li>■ Undertake combination of frontier and inland, and system integrity and inspection work.</li> <li>■ Have effective profiling mechanisms in place to select trade for control.</li> <li>■ Profiling prior to customs declaration in CHIEF using Anti-Smuggling Nets, carriers' own inventory systems, manifest and airway bill information and other local intelligence and market knowledge.</li> <li>■ Courier and Royal Mail risk (twice the volume of other imports) is controlled separately on a more manual basis.</li> <li>■ Levels of assurance are low relative to other EU countries and declining both at frontier and inland.</li> <li>■ There is no noticeable increase in activity to pick up Department's objective of moving fiscal and economic inspection and audit to post clearance and inland.</li> </ul>
Monitoring	<ul style="list-style-type: none"> <li>■ The Customs and International Directorate have taken the lead to improve the alignment of objectives, accountability and reporting at the operational level through the creation of the Customs Strategy Delivery Group.</li> <li>■ Development of the customs operational framework for 2008-09 plans to improve the shared view of performance.</li> <li>■ PSA target reports on irregularities found, not volume against which assessed, or quality of intervention activity.</li> <li>■ Incomplete records and no routine assessment of inspections and irregularities by regime.</li> <li>■ The various directorates involved in managing an aspect of international trade each have their own recording and reporting systems but the information is not always widely available across the Department or easily comparable.</li> <li>■ No EU or national standard for customs work.</li> <li>■ Feedback routes are not well-defined so that learning and decision-making is not adequately supported by historic data.</li> </ul>

Source: National Audit Office analysis

# APPENDIX EIGHT

## Methods of providing advice and information

Method of Obtaining Information	Accessibility	Usability
Definitions	How easy is it for traders to access the information?	How easy is it to extract information from the source?
National Advice Service (NAS)	<ul style="list-style-type: none"> <li>● ■ Open Monday – Friday 8am–8pm.</li> <li>■ It covers the former HM Customs &amp; Excise.</li> <li>■ Answers general questions on international trade, but not specific import entry queries.</li> </ul>	<ul style="list-style-type: none"> <li>● ■ The trader needs to know the right questions to ask.</li> </ul>
Units of Expertise	<ul style="list-style-type: none"> <li>● ■ An internal resource, so traders cannot contact them directly.</li> <li>■ Can be contacted by traders who know them.</li> <li>■ Also attend meetings where traders are present.</li> <li>■ Provide support to officers in the LBS and Local Compliance.</li> </ul>	N/A
HM Revenue & Customs website	<ul style="list-style-type: none"> <li>● ■ Easily accessible.</li> </ul>	<ul style="list-style-type: none"> <li>● ■ The website is difficult to navigate.</li> <li>■ The search function does not work well.</li> <li>■ There is a lot of content to sift through and it is difficult to identify the most up to date information.</li> </ul>
Businesslink website	<ul style="list-style-type: none"> <li>● ■ Easily accessible.</li> </ul>	<ul style="list-style-type: none"> <li>● ■ Well designed to be easy to navigate and search.</li> </ul>



**Effectiveness**

How effective is the source at providing information?

- ■ NAS frequently simply send out Public Notices, rather than providing explanations.
- If the question is referred to the Unit of Expertise it can take some time before the trader receives an answer.
- The NAS only provides answers to general questions.
- Traders cannot track the progress of a query.

N/A

**Reliability and clarity of the information**

Is the information reliable, up to date, and clear for the user?

- ■ Answers to key questions are scripted; however this relies on the NAS correctly identifying the question which is asked.
- Advice from the NAS is found to be inconsistent and incorrect – traders find that if they call and ask the same question phrased differently they may get a different answer.

N/A

- ■ There is a lot of information available but as it is difficult to find, traders are not confident of finding all the relevant information.
- Historic information is still available, and it can be difficult to identify the up to date version.
- There are gaps in content.

- ■ Phase 2 was implemented in April 2008 and delivered an online tariff and guides and information from other government departments in one place.
- Further functionality is planned.

- ■ A lot of information, for example Public Notices, is written in formal language, and is therefore difficult to understand.
- A lot of information cannot be relied upon, particularly because it is out of date.

- ■ Worded in easy to understand language, with links to Public Notices.
- Recently opened, so information should be up to date.

Method of Obtaining Information	Accessibility	Usability
Definitions	How easy is it for traders to access the information?	How easy is it to extract information from the source?
Public Notices	<ul style="list-style-type: none"> <li>● ■ Public Notices are available on the Department's website.</li> </ul>	<ul style="list-style-type: none"> <li>● ■ The notices are written in complex legal language and it can be difficult to interpret them.</li> </ul>
Classification Helpline	<ul style="list-style-type: none"> <li>● ■ Helpline open 9am–5pm Monday–Thursday and 9am–4.30pm on Friday.</li> <li>■ There are 35 staff who work on the helpline and on issuing BTIs.</li> </ul>	<ul style="list-style-type: none"> <li>● ■ Helpline staff work logically through questions with the traders in order to establish the classification.</li> </ul>
International Trade Development Liaison Officers (ITDLOs)	<ul style="list-style-type: none"> <li>● ■ There are 11 ITDLOs in the UK.</li> <li>■ They visit businesses and run workshops on change projects. Traders view them as a valuable resource and would like to see the service extended.</li> <li>■ They also run roadshows, but traders feel that these are not well publicised.</li> </ul>	<ul style="list-style-type: none"> <li>● ■ Information is provided through the workshops/seminars.</li> </ul>
Targeted Education, Enabling and Leverage Team (TEEL)	<ul style="list-style-type: none"> <li>● ■ TEEL carries out direct trader contact e.g. visits, or contact by post or phone providing information and guidance to help traders improve their compliance.</li> <li>■ Traders consulted had no experience of TEEL, and wondered if they had ceased to operate in international trade.</li> </ul>	<ul style="list-style-type: none"> <li>● ■ Direct trader contact means that appropriate information and guidance can be provided.</li> </ul>
Customs Information Papers	<ul style="list-style-type: none"> <li>● ■ Emailed to the Joint Customs Consultative Committee.</li> <li>■ JCCC members (trade associations) disseminate them to their members.</li> <li>■ Published on the Department's website.</li> </ul>	<ul style="list-style-type: none"> <li>● ■ Papers are generally brief and easy to read.</li> </ul>

**Effectiveness**

How effective is the source at providing information?

- ■ The notices are valuable and give a good overview of international trade processes.
- ■ Traders are advised of a commodity code.
- ■ Tend only to be knowledgeable about the subject they are presenting on.

N/A

- As none of the traders consulted had experience of TEEL they were unable to comment on the effectiveness or reliability of information provided.

- ■ Provides up to date information on changes.

**Reliability and clarity of the information**

Is the information reliable, up to date, and clear for the user?

- ■ There are some gaps in content, and information is not necessarily up to date or complete.
- ■ Advice given can be inconsistent depending on what is asked.
  - The advice is not binding and the trader is taking a risk by relying on the advice.
- ■ Generally well regarded as giving good information.
  - Give workshops/seminars on new projects e.g. introduction of the Authorised Economic Operator scheme.

N/A

- As none of the traders consulted had experience of TEEL they were unable to comment on the effectiveness or reliability of information provided.

- ■ Generally a reliable and up to date source of information.

Design and Production by  
NAO Marketing & Communications Team  
DP Ref: 008639

This report has been printed on Consort Royal Silk and is produced from a combination of ECF (Elemental Chlorine Free) and TCF (Totally Chlorine Free) wood pulp that is fully recyclable and sourced from carefully managed and renewed commercial forests. The range is manufactured within a mill which is registered under the BS EN ISO 9001 accreditation, which provides the highest standard of quality assurance.



Published by TSO (The Stationery Office) and available from:

**Online**

[www.tso.co.uk/bookshop](http://www.tso.co.uk/bookshop)

**Mail, Telephone, Fax & E-mail**

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline

Lo-call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: [customer.services@tso.co.uk](mailto:customer.services@tso.co.uk)

Textphone 0870 240 3701

**TSO Shops**

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

**The Parliamentary Bookshop**

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax Orders 020 7219 3866

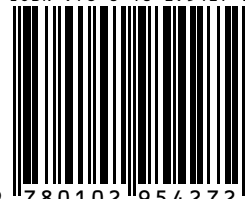
Email [bookshop@Parliament.uk](mailto:bookshop@Parliament.uk)

Internet [bookshop.Parliament.uk](http://bookshop.Parliament.uk)

**TSO@Blackwell and other Accredited Agents**

£14.35

ISBN 978-0-10-295427-2



9 780102 954272