



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



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.**