



**AUSTRALIAN
CUSTOMS SERVICE**

Chief Executive Officer

Customs House
Canberra City ACT 2601

1ST @ 2ND @ MRS @ 4/05.

Submission No: 4
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Mr Russell Chafer
Committee Secretary
Joint Statutory Committee on Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Mr Chafer

**Audit Report No.16, 2004-2005, Container Examination Facilities
(Australian Customs Services)**

Please find enclosed Customs' submission regarding Audit Report no.16 to the JCPAA. The submission includes Customs' response to the audit report recommendations in the form of a report on the implementation status of the ANAO recommendations.

As the Committee was unable to visit one of the container examination facilities I have included, in the submission, a background paper and video containing a general overview of the container examination processes. Hopefully this will assist the Committee to understand the development and role of the container examination facilities.

If you have any queries or require any further information please contact Ms Roxanne Kelley, National Manager Research and Development on 6275 6373

Yours sincerely


(L B WOODWARD)

5 April 2005



Australian Government
Australian Customs Service

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

**REVIEW OF AUDIT REPORT No. 16, 2004/05 – CONTAINER EXAMINATION
FACILITIES (AUSTRALIAN CUSTOMS SERVICE)**

AUSTRALIAN CUSTOMS SERVICE SUBMISSION

APRIL 2005



**Joint Committee on Public Accounts and Audit
Review of the Auditor General's Report**

**Audit Report No.16. 2004-2005, *Container Examination Facilities*
(*Australian Customs Service*)**

Australian Customs Service Response to Audit Report Recommendations

Between November 2002 and November 2003 Customs commissioned four container examination facilities (CEFs) in the ports of Melbourne, Sydney, Brisbane and Fremantle. In December 2004, the Australian National Audit Office undertook a performance audit of the container examination facilities and made eight recommendations for improvement.

Customs welcomed the report and agreed with all eight recommendations. Customs has commenced implementation of all recommendations and the 'Report on the Implementation Status of the ANAO Recommendations' which outlines the steps undertaken by Customs to implement the recommendations is attached.

The CEFs perform a critical function in protecting the Australian border. Over 1.9 million loaded sea cargo containers were imported into Australia between July 2003 and June 2004. Most containers entering Australia are of no concern or present a low risk to the Australian community as Customs has already checked the internal company controls and compliance arrangements.

Implementation of the CEFs in Australia's largest ports has enabled Customs to increase inspection and examination of sea cargo significantly. The state-of-the-art container X-ray system allows Customs to inspect the contents of a sea cargo container quickly and effectively and when a further physical examination is required Customs is able to employ a range of sophisticated tools including: the pallet X-ray; trace detection equipment (detection of drugs and explosives) and the detector dogs.

The detection results since the commissioning of the facilities show that the CEFs have provided a positive return for the monies expended, with significant benefits to industry, Government, and the community.

Detections of alcohol, tobacco products and cigarettes have identified possible attempted evasion of duty as well as reduced the risk to the Australian community of unregulated products of this type entering the Australian market.

The community has benefited from the detection of a significant quantity of illicit drugs. In addition, these detections can be considered to have saved future costs to the community in health, legal and other costs.

As the Joint Committee of Public Accounts and Audit were unable to visit one of the CEFs during the public hearing program, a Background Paper has been developed and included in this submission. The Paper gives an overview of the container examination facilities and the inspection and examination processes. Also included is a short video that illustrates the inspection processes from container arrival, at the Sydney CEF, to its return to the wharf.



Implementation Status of the ANAO Recommendations

Customs has agreed with all of the ANAO's Recommendations. The following summary outlines the steps Customs is taking to implement the recommendations.

Recommendation 1

Background - Logistics Coordination

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

Recommendation

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

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

STATUS:

- 1(a) Customs has contracted an IT business analyst to address ANAO Recommendation 1(a). The IT business analyst has also been tasked with reviewing Recommendation 4 in the ANAO Report.
- 1(b)&(c) Customs has engaged a Consultant with expertise and extensive experience in logistics coordination to address both of these matters.

This entails:

- Documenting and reviewing the existing in-house CEF Logistics arrangements;
- Proposing revised arrangements and a process for their implementation;
- Facilitating an in-house workshop to give effect to the Customs endorsed approach; and
- Developing suitable documentation and training materials to support the required outcomes.

As there is some overlap between these two projects, Customs has assigned a Customs Project Officer to ensure that the contracted consultants work together as required.

A workshop of Customs Risk Identification and Intelligence (RI&I) and CEF staff, who are involved in targeting containers and the logistics arrangements for the CEF, has been organised and will be held in Canberra on 27 April 2005. The workshop will enable the contracted consultants and Customs staff involved the logistics component of the CEFs to progress these matters.

Recommendation 2

Background - Operational intelligence

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

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

Recommendation

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

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

STATUS

- 2 a) Customs has commenced a national project to support match evaluation and profile development. This project will reference material regarding up to date patterns of trade. Specific work will be undertaken in each region which will complement the national project.
- b) Mechanisms for review and updating of the data will be included in the project.

Recommendation 3

Background – National Country of Origin Profiles

Customs recognises the limitations of its current approach to country of origin profiling and is considering alternative approaches to risk-rating and targeting countries of origin. For example, goods from some countries are not checked at all by these profiles although they may constitute as much risk as countries subject to origin profiles. Also, high-risk countries are all treated similarly, even though their risks are unique. For example, the risk increases if they are a known transshipment country. As a consequence, quality targets are not always being detected and insufficient attention is being paid to potentially important targets.

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

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

Recommendation

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

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

STATUS:

- 3 In order to re-evaluate the risk ratings for all major countries Customs completed an assessment focusing on illicit drug importation in sea cargo. A program of work to extend this to other areas of risk is in progress.

Recommendation 4

Background – Recording Inspections and Examinations

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

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

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

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

Recommendation

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

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

STATUS:

- 4(a) Customs is currently completing the development of a new version of its computer system for recording examinations (EXAMS 2). This system addresses the inadequacies of the existing EXAMS 1B system, facilitates the collection of data at the workgroup level and addresses most of the business rules issues that the ANAO identified. Extensive user acceptance testing of the EXAM 2 has assured Customs that it meets the CEF reporting requirements. EXAMS 2 will be released in May 2005.
- 4(b) Customs has been refining its reporting specifications for the CEFs for some months. Once the CEF KPI reporting specifications are finalised, the business analyst working on Recommendation 1 will be tasked with assessing the development of standardised reporting templates in Customs Corporate Research Environment (CRE). These reports will be accessible once EXAMS 2 is implemented.

Recommendation 5

Background – Positive Finds

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

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

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

Recommendation

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

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

STATUS:

- 5 Customs has addressed the issues identified by the ANAO as part of its development of the next version of its EXAMS system (EXAMS 2).

In consultation with the relevant Customs areas, business rules are being developed to define what constitutes a positive, how a positive find will be recorded in the EXAMS 2 system and the process for completing the EXAMS record. The business rules are due to be completed by the EXAMS 2 release date, which is expected to occur in May 2005.

Customs Risk Identification and Intelligence (RI&I) Branch have established a working group to identify and address the concerns raised by the ANAO.

The 'Help Desk' established to support users of the EXAMS system is conducting ongoing checks on the quantity of EXAMS records, assisting users in relation to apparently incomplete examination records, checking the quality of client data being recorded for the examinations and identifying data entry errors, inconsistencies, etc.

Recommendation 6

Background – CEF Performance data

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

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

Recommendation

To enable the operational effectiveness of the CEFs to be assessed and reported on, the ANAO recommends that Customs:

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

STATUS:

6(a) The following CEF specific measures have been proposed for Customs higher level reporting.

- Number of containers inspected (x-rayed)
- Number of containers physically examined.
- Number of complaints about CEF operations.

When the definition of what constitutes a positive find has been developed, as recommended by the ANAO (recommendation no.5), the number of positive finds will also be included in Customs higher level reporting.

6(b) These measures have been recommended as part of the development of Customs Outcomes /Outputs framework for 2005/06.

Recommendation 7

Background - Development of logistics plans

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

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

Recommendation

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

STATUS:

- 7 Following detailed discussions with its service providers, Customs developed a national framework for the development of logistics plans at each of the CEFs. Respective CEF managers and local service providers have subsequently developed formal logistics plans for imports, exports and late reported cargo.

Recommendation 8

Background - Monitoring Performance

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

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

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

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

- a thorough assessment of the risks associated with the contracted service delivery;
- benchmarking performance across ports to identify consistent standards and better practice that may be incorporated into the new contracts and as an ongoing process for continuous improvement;
- an evaluation of the existing service level agreements (SLAs), service specifications and KPIs;
- reviewing the existing performance management framework to ensure that the contracted services are being measured and that the methods for measuring and monitoring performance are appropriate and effective; and
- developing a regular, standardised performance reporting regime that allows straightforward analysis of any relevant information and performance over time.

Recommendation

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

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

STATUS:

- 8 Customs has analysed the key performance indicators and service level standards within its existing contracts and has sought to revise some of these KPI in advance of the next round of contract negotiations. The stevedores have agreed in principle to a revised KPI for the delivery of containers to the CEFs, which provides more transparency in measuring their performance and the possibility of containers incurring storage charges.

Customs has engaged external consultants to conduct a detailed review of the matters identified in this recommendation. It is expected that the review will be completed by June 2005.