



Performance audit report

# New Zealand Customs Service: Collecting customs revenue





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# New Zealand Customs Service: Collecting customs revenue

This is the report of a performance  
audit we carried out under section  
16 of the Public Audit Act 2001

June 2007

ISBN 0-478-18181-7

## Foreword

I intend to regularly review the activities of those public sector entities that collect the majority of the Government's revenue. The New Zealand Customs Service was responsible for collecting about 15% of the Government's total forecast revenue for 2006/07, so it is important that I regularly provide assurance to Parliament over the Service's revenue systems and controls.

As part of this regular review, I conducted a performance audit that assessed the Service's arrangements for collecting customs duties, excise, and Goods and Services Tax on imported goods.

Although I have made recommendations for improvement, I am satisfied that the Service's arrangements for collecting customs revenue are sound, and that its information technology systems are performing effectively.

The Service does need to improve its performance measures to reflect the quality and outcome of its performance. This is a deficiency that the Service has in common with other entities I audit, and is one that I would like to see remedied. I am pleased that the Service had already identified this matter for serious attention.

I thank the Service's staff for their willing help with this audit. I also thank the people in the industry who generously gave their time and views to my audit team.

A handwritten signature in black ink, consisting of a horizontal line that curves upwards and loops back to the left, ending in a small flourish.

K B Brady  
Controller and Auditor-General

8 June 2007

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# Glossary

**Concession rates:**\* The allowances that, in certain circumstances, either lessen or waive the customs duties due on imported goods.

**Customs brokers:** Organisations acting for individuals or organisations importing (or exporting) goods or involved in the manufacture and storage of excisable goods.

**Customs-controlled areas:** The places where imported goods and goods for export are stored and where excisable goods are made or stored.

**Customs duties:**\* Import duties (or tariffs) and excise-equivalent duties on certain imported goods.

**Customs revenue:** In this report, customs duties, Goods and Services Tax on imports, and excise.

**Duty:**\* A tax you pay on imported goods that you buy. The government applies a duty to help protect businesses that are domestically producing similar goods. Examples are china, clothing, bags, jewellery, linen, and toys. The duty rate ranges from 12.5% to 34% of the good's price.

**Entry:** In this report, a collective term used to refer to customs declarations for import (import entry) and the manufacture and movement of excisable goods (excise entry).

**Excisable goods:**\* Domestically manufactured petroleum fuel and products, tobacco and tobacco products, and alcohol and alcohol products on which excise is payable.

**Excise:**\* A tax that the government of a country puts on particular goods manufactured for sale in that country.

**Excise-equivalent duties:**\* The tax on imported petroleum fuel, tobacco, and alcohol goods and products. The duty rate is the same as the excise duty rate for petroleum fuel, tobacco, and alcohol goods and products that are manufactured in New Zealand.

**Trader(s):** In this report, importers, customs brokers, and the manufacturers of excisable goods.

\* Definitions marked with an asterisk are a simplified version of terms used in the Customs and Excise Act 1996. Refer to the Act for more substantive definitions.





## Introduction

The Estimates of Appropriations forecast that during 2006/07 the New Zealand Customs Service (the Service) would collect \$9,072 million in customs revenue. Of this, about 62% would come from Goods and Services Tax (GST) on imported goods, about 20% would come from customs duties on some imported goods, and about 18% would come from excise on other goods (called excisable goods) manufactured in New Zealand. This customs revenue would account for about 15% of the Government's total forecast revenue for 2006/07.

We examined the Service's arrangements for collecting customs revenue and analysed in detail the performance of its electronic system to record import, export, and excise transactions (CusMod).

We examined whether the Service:

- had suitable arrangements to collect customs revenue;
- accurately received entries, and calculated and collected the customs revenue; and
- adequately reported on its revenue-collecting performance in its annual report.

Customs revenue was collected within a voluntary compliance regime, which encouraged individuals and organisations to voluntarily comply with requirements.

## Our findings and conclusions

### The Service's arrangements to collect customs revenue

#### Supporting voluntary compliance

We expected the Service's arrangements for collecting customs revenue to support the voluntary compliance regime in place. We found that the arrangements were supportive and sound.

The Service's education, intelligence, and audit teams had separate responsibilities, which included the capacity for each to review conclusions drawn by the others. The Service used multiple levels of risk assessment to target compliance activities, and new information was added to the Service's knowledge about risks of non-compliance.

The Service entered information about imported and excisable goods into CusMod. It used the entries in CusMod to calculate the revenue due. The Service had credit and debt management schemes that collected the revenue due for 97%

of the entries lodged in CusMod. The remaining revenue was collected in cash. The Service carefully assessed the risk of applicants before it admitted them to the schemes, and the schemes had powerful built-in incentives for participants to comply with their customs obligations.

### **Licensing the manufacturers of excisable goods**

All manufacturers of excisable goods must be licensed. The licence includes the premises used to manufacture and store excisable goods. If the premises are not licensed, then excise duty will become due whenever goods are moved between manufacturing and storage areas. Customs revenue is lost if businesses are not licensed when they should be.

In our view, the Service had effective practices for ensuring that the manufacturers of excisable goods were aware that they needed to be licensed. The Service also carried out data-matching exercises to detect manufacturers who might be unlicensed.

The Service regularly audited whether manufacturers were complying with the conditions of their licences, and this provided assurance that the appropriate amount of revenue was being collected. This auditing was important because licences do not expire. Audits do not take place until after a manufacturer has been licensed for more than one year. To further promote compliance, the Service intended to schedule educational visits to manufacturers in the first year after they are granted a licence.

### **Valuing goods**

The customs revenue due depends on the declared value of the goods concerned and related importing and insurance costs. If these costs are understated, then the customs revenue collected may be less than it should be. The Service took valuation risk seriously, and the risk ranked highly in the criteria used to select traders for audit. Only some valuations were checked when entries were lodged. This was consistent with, and appropriate for, a voluntary compliance regime.

In our view, the Service could do more to ensure that individuals importing goods (for example, through the Internet) are made aware that they ought to find out whether they need to lodge an entry.

### **Exchange rates**

Exchange rates determine the value of goods that are declared to the Service in another currency. The value of the goods determines the customs duties (if any) and GST due.

The Service's method for fixing and notifying exchange rates was efficient and had traders' support. However, some limited analysis that we carried out suggested that the Service's method may not be the most effective for determining exchange rates.

### **Working with other customs services**

We expected the Service to have relationships with customs agencies in other countries to help it collect customs revenue due in New Zealand. The Service had formal arrangements with customs agencies in 10 countries to help each other prevent, identify, and investigate customs offences, prosecute offenders, and assess the amounts owing in customs duties and other taxes. It met regularly with agencies in other countries to strengthen its international relationships.

### **Receiving entries, and calculating and collecting customs revenue**

We subjected relevant parts of CusMod and the Service's financial management information system to scrutiny. The Service's systems and procedures met nearly all of our expectations.

Overall, the systems for receiving entries from traders ensured that the entries were complete and accurate, and were sent by authorised traders. The Service kept a history of authorised changes to entries, and it had procedures to prevent and detect unauthorised changes. Only approved staff could change critical master fields in CusMod, and the procedures for changing these were thorough. The information from CusMod was correctly transferred to the financial management information system, which was used to invoice traders.

The Service's documentation of its business rules for CusMod was out of date. Although this did not adversely affect the amount of revenue collected, in our view, the Service needs to correct this. The documentation may be relied on, for example, to configure any replacement of CusMod, which could cause problems with any new information system.

There were suitable disaster recovery plans for CusMod, although some of the documentation was out of date and incomplete.

### **Performance reporting**

The data used to report on the performance measures in the Service's accountability documents was accurate and complete. However, the Service's performance measures did not cover the whole voluntary compliance process, and we could not use the performance measures to assess whether compliance

was improving. The performance measures did not give assurance about whether all the revenue that could be collected was being collected and did not enable a reader to assess the Service's effectiveness and efficiency.

During our audit, the Service had started to comprehensively review its output classes for reporting performance (including the performance measures).

## Our recommendations

We recommend that the New Zealand Customs Service:

1. do more to raise awareness about customs obligations among individuals who import goods;
2. periodically review the effectiveness and efficiency of its method for setting the exchange rates used to determine the value of imported goods;
3. update its business rules for collecting revenue to ensure that the documents are complete and accurate, which includes clarifying the business rules for duty rate and import duty, confirming through testing that CusMod is performing as intended, and taking any remedial action necessary to ensure that customs revenue continues to be correctly calculated;
4. ensure that its disaster recovery plans and supporting documents accurately and completely reflect the current information technology infrastructure and the contact details for crucial people; and
5. enhance its performance reporting measures to illustrate the contribution of all of its activities – including education, intelligence, and audit – to the voluntary compliance regime.

# Part 1

## Introduction

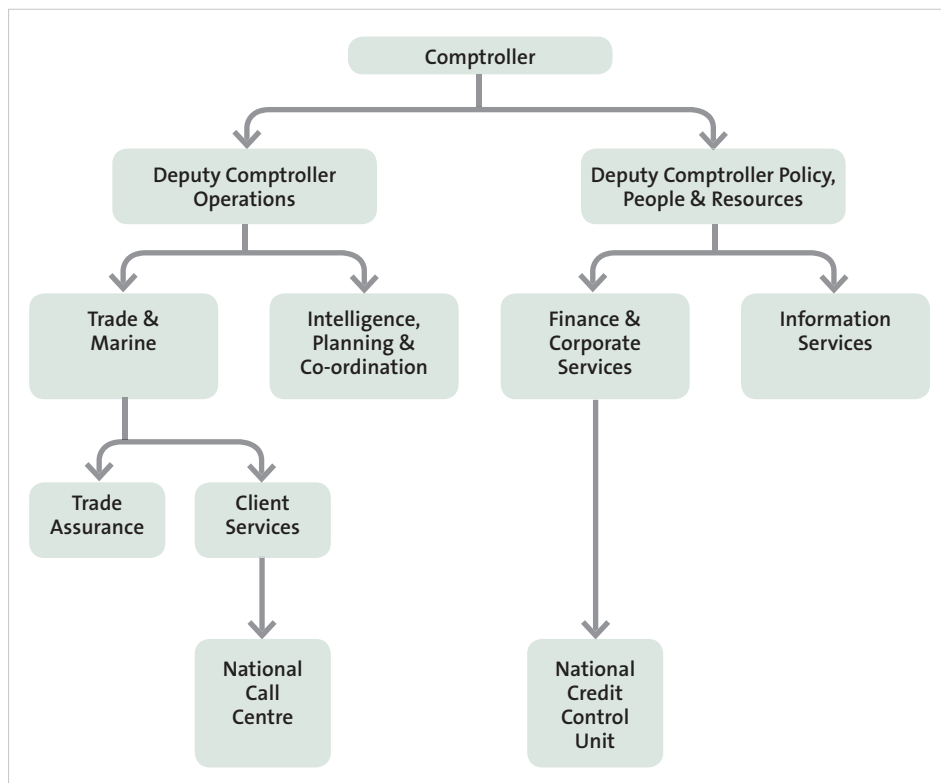
- 1.1 The Auditor-General intends to regularly examine the activities of those public sector entities that collect the most revenue. We chose to carry out a performance audit of the New Zealand Customs Service: Te Mana Arai O Aotearoa (the Service) because it was responsible for collecting about 15% of the total Crown revenue for 2006/07.
- 1.2 In this Part, we introduce the Service and explain:
- its role in collecting customs revenue;
  - the voluntary compliance regime for collecting customs revenue;
  - the scope of our audit; and
  - how we carried out our audit.

### New Zealand Customs Service

- 1.3 The Service has four areas of focus, which are border security, community protection,<sup>1</sup> trade and tourism support, and customs revenue collection. Our audit focused on the Service's role in collecting customs revenue.
- 1.4 Each year, the Service receives about \$75 million in Crown funding. It also receives about \$35 million from third parties, including other government departments, for services it provides on their behalf. The Service has about 1300 employees throughout New Zealand and overseas (for example, in Beijing and Sydney).
- 1.5 In this report, we refer to the activities and responsibilities of particular organisational units within the Service. Figure 1 shows their relationship to each other and to the Comptroller of Customs (the Chief Executive of the Service).

<sup>1</sup> The New Zealand Customs Service helps to protect communities by, for example, detecting and preventing the importation of illicit drugs, illegal weapons, and objectionable pornography.

**Figure 1**  
The organisational units of the New Zealand Customs Service discussed in this report



Note: For a fuller description of the Service's organisational structure, refer to the Service's website ([www.customs.govt.nz](http://www.customs.govt.nz)).

## Collecting revenue

- 1.6 The Service collects revenue from GST on imports, customs duties, and excise (customs revenue). Customs revenue becomes due when the Service clears imported goods and when excisable goods are moved from where they were manufactured. When traders and individuals complete customs declarations and manufacturers confirm that they have made or moved excisable goods, an entry is generated in the Service's electronic system to record import, export, and excise transactions (CusMod). Information Services operates CusMod, which was introduced in 1996 and checks the information entered and calculates the customs revenue due. After data from CusMod is transferred into the Service's financial management information system (FMIS), the Service sends invoices to the traders and collects the revenue due.

- 1.7 The Customs and Excise Act 1996 (the Act), the Goods and Services Tax Act 1985, and the Tariff Act 1988 contain the main legislative requirements for customs revenue.
- 1.8 The Estimate of Appropriations forecast that the Service would collect customs revenue of \$9,072 million in 2006/07. Figure 2 shows that GST on imports, customs duties, and excise make up, respectively, about 62%, 20%, and 18% of this total.

**Figure 2**  
**Forecast customs revenue for 2006/07**

This figure shows the proportion of customs revenue forecast to be collected for GST on imports, customs duties, and excise.

			Proportion of forecast customs revenue	Forecast customs revenue (\$ million)
GST on imports			62%	\$5,670
Customs duties	Import duties on dutiable goods and excise-equivalent duties		20%	\$1,773
Excise	Petroleum fuel and petroleum fuel products	58%	18%	\$1,629
	Alcohol and alcohol products	33%		
	Tobacco and tobacco products	9%		
<b>Total customs revenue</b>			<b>100%</b>	<b>\$9,072</b>

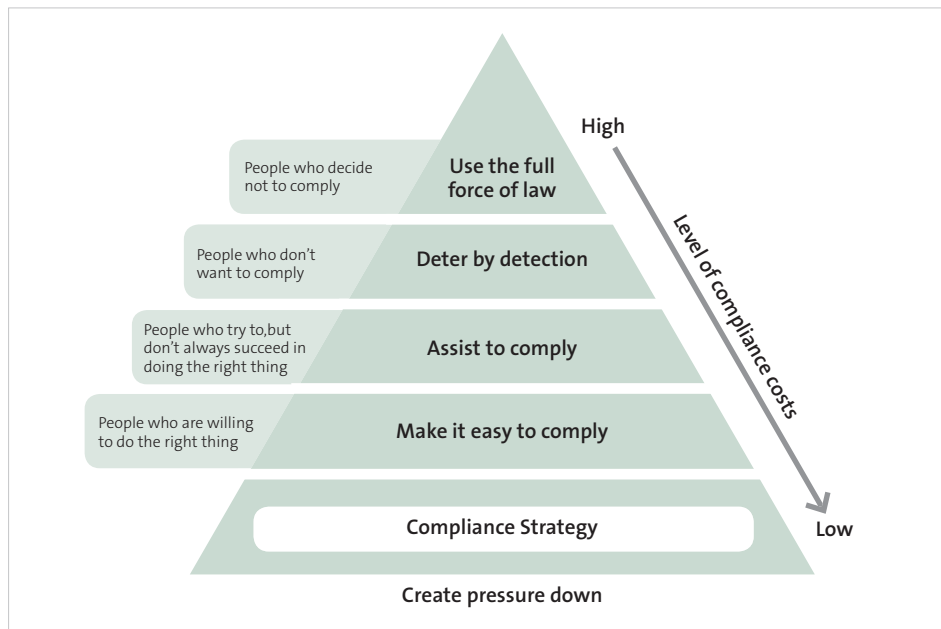
Source: This figure has been compiled from the Service's information. Figures are rounded.

## Voluntary compliance regime for collecting revenue

- 1.9 The obligations for customs revenue are outlined in law and are backed up with strong enforcement powers and penalties. The Service does not approach the task of collecting this revenue with an "enforcement" mentality – its core strategy is to support voluntary compliance. Voluntary compliance means that individuals and businesses are responsible for enquiring about their compliance obligations, voluntarily lodging entries with the Service, completely and accurately declaring the required information, accurately calculating the customs revenue due, and paying the amounts owing on the due date and in the required manner.
- 1.10 Voluntary compliance regimes usually offer incentives for complying and are designed to try to make compliance easy. Those who choose not to comply face increasingly severe interventions by the regulator to enforce compliance (see Figure 3).

**Figure 3**  
**The compliance triangle**

This figure shows that most people are willing to comply and know what to do to comply, while progressively fewer people need progressively stronger interventions to ensure that they comply.



Source: Adapted from the Service's strategy for compliance.

## The scope of our audit

- 1.11 Our audit examined whether the Service:
- had suitable arrangements to collect customs revenue;
  - accurately received entries, and calculated and collected the customs revenue; and
  - adequately reported on its revenue-collecting performance in its annual report.
- 1.12 We examined the Service's arrangements for collecting customs revenue and analysed in detail CusMod's performance for collecting revenue against our expectations.
- 1.13 We did not audit the Service's arrangements for collecting revenue from other sources, such as fees and selling seized goods. These activities generate a comparatively small amount of revenue.



## How we carried out our audit

- 1.14 To become familiar with the Service's business, we visited the International Mail Centre, inspection (including x-ray) facilities at Auckland airport and seaport, and the Service's offices in Auckland and Manukau cities.
- 1.15 We interviewed the Service's staff in Auckland, Dunedin, and Wellington. We met with selected representatives from industry groups, including customs brokers and a company the Service contracted to deliver an electronically managed messaging service. We reviewed many documents. We tested critical procedures and repeated selected processes within CusMod and the FMIS.



## Part 2

# Arrangements to collect customs revenue

- 2.1 In this Part, we discuss whether the Service had suitable:
- arrangements for supporting voluntary compliance;
  - practices for licensing the manufacturers of excisable goods;
  - practices for verifying the declared values for imported goods;
  - methods for determining and notifying changes to exchange rates; and
  - arrangements with other customs agencies to collect customs revenue.

### Supporting voluntary compliance

- 2.2 The Act imposes penalties for wrong entries from the date the entry was lodged (or should have been lodged). Under various legislation, the Service has between four and seven years to discover and collect any unpaid customs revenue. Administrative penalties can apply. The Service can also prosecute, seize and sell goods to recover customs revenue, and petition the Courts to put companies into liquidation. Importers (and buyers) are liable for complying with the Act, even if customs brokers make errors on entries. In combination, these are powerful incentives for compliance.
- 2.3 We expected:
- the Service's arrangements to support its strategy of voluntary compliance;
  - suitable relationships to exist between its education, intelligence, and audit teams;
  - the Service to use risk assessment to target its compliance activities;
  - the Service to have suitable procedures for issuing and checking compliance with customs-controlled area (CCA) licences; and
  - the Service's credit and debt management arrangements to promote effective and efficient revenue collection.

### Our findings

#### **Education, intelligence, audit, and risk management**

- 2.4 The education, intelligence, and audit activities were mainly the responsibility of Client Services, Intelligence, Planning & Co-ordination (Intel), and Trade Assurance respectively (see Figure 1).
- 2.5 An important part of a voluntary compliance regime is providing comprehensive information to traders and individuals so they know what to do to comply. The Service used various information channels to do this, including fact sheets, its website, a National Call Centre, a weekly electronic newsletter (*Customs Release*),

and a monthly printed magazine (*Contraband*). The Service also had memoranda of understanding with industry partners to manage risks to customs revenue.

- 2.6 There was no scheduled programme for educating trade sectors, traders, or individuals to systematically address risks of non-compliance. However, the Service did regularly provide information through the information channels listed above and occasionally conducted education projects. For example, it had visited businesses that have repeatedly had to pay administrative penalties.
- 2.7 The Service told us that by 2007/08 it intended to schedule educational visits during the first year in which a licensee holds a CCA licence. This would encourage the licensee to comply with the CCA licence before they become subject to audit.
- 2.8 The Service had documented its logic for Trade Assurance's yearly audit programme. The documentation set out the roles and responsibilities for identifying and selecting trade sectors and traders for audit, conducting audits, carrying out post-audit analysis, and communication. At each step, responsibility was allocated to Intel or Trade Assurance or to both jointly.
- 2.9 Throughout the process, the team responsible produced information reports that recorded the results of analysis or audits. The reports might recommend that another team carry out certain intelligence, enforcement, or educational activities. The Service used the same process for selecting excise and other types of audits.
- 2.10 Risk profiling of traders considered information sourced from Client Services, Intel, and Trade Assurance. There were several levels of risk assessment, so both national and local knowledge was considered.
- 2.11 The Service scheduled audits of selected high- to medium-risk trade sectors and traders. Reactive audits (based on new information becoming available during the year) and random audits of other trade sectors and traders also occurred.
- 2.12 There was a separation of responsibility between Client Services, Intel, and Trade Assurance. This enabled each to provide information for the others to use and, to some extent, to review the conclusions each had drawn. The arrangements avoided a single part of the organisation being responsible for all three activities – education, intelligence, and audit. The arrangements also allowed each team to bring new information into the education-intelligence-audit loop. For example:
  - Intel was responsible for deciding (with others) the high-risk trade sectors and traders, which met the good practice goal of independent risk assessment. Trade Assurance contributed another level of risk assessment and performed the audits. It reported the audit results and recommendations for action to Intel and Client Services for them to act on.

- Client Services issued CCA licences, which included providing a risk assessment of applicants to Intel. Trade Assurance audited the compliance of CCA licensees with their licence conditions. It reported the audit results and recommendations for action to Intel and Client Services for them to act on.
- If Client Services amended, suspended, or revoked CCA licences, it had to provide relevant information to Intel. Calls to the National Call Centre that caused concern about potential non-compliance might lead to reports to Intel or to a referral to Trade Assurance for possible audit.

2.13 Trade Assurance's audit policies did not include recent changes to the Service's organisation structure or to the Service's documentation of its logic for the audit programme. Although these should, in our view, be up to date, they did encapsulate the essence of the audit programme's risk-based approach.

#### **Customs-controlled area licences and temporary import agreements**

- 2.14 The Service granted CCA licences to owners, occupiers, or persons in charge, subject to certain conditions. A procedure statement formed part of the CCA licence. It prescribed the records that CCA licensees must keep, which includes a requirement that licensees tell the Service of changes to aspects of the business that were detailed in the licence (for example, changes to the size and location of manufacturing and storage premises). The Service could revoke or amend CCA licences and impose fines on conviction for not complying with the licence.
- 2.15 After CCA licensees had been licensed for a year, they became subject to regular audit by Trade Assurance. The audit cycle used by Trade Assurance took into account the assessed risk for each CCA licensee.
- 2.16 A fact sheet about CCA licences and excise gave answers to many commonly asked questions and referred readers to the nearest of the Service's offices, the Service's website, or the National Call Centre for further information. The Service had not published a fact sheet explaining procedure statements, but we were told that one was planned.
- 2.17 The Service kept CCA licensees up to date with relevant issues through *Customs Release* and *Contraband*. These publications were used to raise CCA licensees' awareness of their obligations.
- 2.18 The Service issued temporary import agreements to traders who imported items for later export (for example, boat builders who import parts to build a boat and sell the completed boat overseas). The Service checked compliance with the temporary import agreements every six months.

**Credit and debt management**

- 2.19 Ninety-nine percent of entries into CusMod were sent electronically to the Service. In combination with the policies, procedures, and judgement exercised by the Service's staff, this enabled effective control over the quality of entries (see Part 3).
- 2.20 The Service had direct debit payment schemes for traders: the Customs Deferred Payment Scheme and the Broker Deferred Credit Facility Scheme. The Service did a thorough risk assessment before it allowed applicants into the schemes.
- 2.21 Seventy-five percent of entries lodged with the Service were paid through the Customs Deferred Payment Scheme and 22% through the Broker Deferred Credit Facility Scheme. The remaining payments (3%) were paid in cash.
- 2.22 Participation in the schemes allowed goods to be released promptly. Being excluded could adversely affect cash flow. Participants could be ejected from the schemes if they failed to comply with the schemes' requirements, which include having enough funds available to pay. Ejected participants could not re-enter until they could prove their ability to comply.
- 2.23 The Service had documented processes to decide when it would pursue understated and undeclared customs revenue, including through legal action.

**Our conclusions**

- 2.24 The Service's powers under legislation provided strong incentives for compliance. These powers were supported by credit and debt management schemes that promoted effective and efficient revenue collection. The payment schemes' controls significantly reduced the risk of the Service not collecting customs revenue.
- 2.25 In our view, there were suitable relationships between the Service's education, intelligence, and audit teams, and there was a well-documented risk assessment process for targeting intelligence and audit activities.
- 2.26 CCA licences and temporary import agreements were effective mechanisms for promoting compliance. In our view, the Service's plan to conduct educational visits to CCA licensees (in the period before they are subject to be audited) will help to promote compliance and enable the Service to systematically respond to common problems identified during the visits.

## Licensing manufacturers of excisable goods

- 2.27 The Act requires all manufacturers of excisable goods to be licensed. The licences cover the premises used to manufacture and store excisable goods. If the premises are not appropriately licensed, then excise duty will be due whenever goods are moved between manufacturing and storage areas.
- 2.28 Customs revenue can be lost if manufacturers of excisable goods are not licensed (or the CCA licence is not amended as required). The liability to pay excise duty remains whether the manufacturer is licensed or not. There are so few manufacturers of petroleum and tobacco and related products that the risk of unlicensed manufacturers is restricted to the alcohol industry.
- 2.29 We expected the Service to have effective practices for ensuring that manufacturers of excisable goods are aware of the requirement to be licensed and for detecting unlicensed manufacturers of goods.

## Our findings

### Information to applicants and CCA licensees

- 2.30 The Service had several methods for providing information to unlicensed and licensed manufacturers of excisable goods (see paragraphs 2.16-2.17). New Zealand Winegrowers<sup>1</sup> told us that the Service's regional audit staff were well regarded by small- to medium-sized winemaker businesses.
- 2.31 The website gave more details about the types of products that attract excise duty and listed the excise duty rates. The fact sheet included an application form for a CCA licence. During the application process, the Service's staff are required to visit and inspect the relevant premises.
- 2.32 As well as the Service's information, New Zealand Winegrowers published, with a law firm, a guide about its members' legal obligations, including excise.

### Detecting unlicensed manufacturers

- 2.33 New entrants to the wine industry often relied on contracted winemakers to produce their wine. The contracted winemakers were experienced and had an important role in encouraging new entrants to contact the Service about their potential tax obligations.
- 2.34 The Service periodically matched its own information about an industry with published industry information. For example, it matched industry statistics for grapes grown and wine produced in a particular region. Any unexplained differences could result in companies being risk-assessed for potential audit. Because the Service generally has four years to detect unpaid customs revenue (or

<sup>1</sup> New Zealand Winegrowers is an industry group that aims to represent, promote, and research the national and international interests of the domestic wine industry.

up to seven years in some circumstances), the data-matching exercises needed to be performed only every three to four years. Industry stakeholders performed their own data-matching exercises and told us that they had found no unexplained differences.

### **The Service's policies and procedures for licensing manufacturers of excisable goods**

- 2.35 The Service was preparing national procedures, which were being piloted in the Nelson-Marlborough region. Meanwhile, each region had its own procedures for issuing and updating CCA licences and procedure statements. A document, *Excise for Beginners*, provided staff with guidance while the national policies and procedures were being prepared.

### **Our conclusions**

- 2.36 In our view, the information available about excise was accessible and supported by industry actions to promote compliance. The Service's data-matching exercises were effective in helping to identify unlicensed manufacturers and detect unpaid excise.
- 2.37 In our view, the Service's regular cycle of audits to check compliance with CCA licences was essential, given that the licences did not expire. The audits may not have led to more revenue collection, but they did provide assurance about the integrity of the systems used to collect the revenue.
- 2.38 We support the Service's project to produce nationally consistent procedures for issuing excise licences.

### **Valuing goods**

- 2.39 The Act requires traders and individuals to specify the value of imported goods when lodging an entry with the Service. The value of the goods is the starting point for calculating customs revenue. If the value is understated, then the revenue calculated may be less than it should be. There is no charge where customs revenue on any one import is less than \$50.
- 2.40 There are various methods for deciding the value of goods, but the main one is the transaction value. The Act gives alternative methods when the transaction value cannot be used. Figure 4 describes how customs revenue is calculated.



### Figure 4 Valuing imported goods

The main method for valuing imported goods is by adding customs duties and GST to the price paid for the goods and other relevant costs.

Steps	
1.	The importer declares the customs value of the goods, which is usually the price paid or payable for goods when sold for export to New Zealand. The importer includes any other relevant costs, such as royalties and commissions, to get the customs value. If the goods were bought in another currency, the value is converted into New Zealand dollars.
2.	The importer adds the costs of insuring and transporting the goods to the total arrived at in Step 1.
3.	Customs duties (if any) are calculated on the total arrived at in Step 2.
4.	GST is calculated on the total arrived at in Step 3.
5.	The total of Steps 3 and 4 is the total customs revenue to be collected by the Service.

Source: Office of the Auditor-General.

- 2.41 We expected the Service to ensure that it verified the values for imported goods consistently.

### Our findings

#### Checking valuations before goods are cleared

- 2.42 The Service did not check valuations when entries were lodged except in two situations. The first situation was when an automatic warning was generated and sent to a customs officer for goods with unexpected values higher than a certain threshold. The customs officer was not required to act on the warning, but the Service told us that it intended to make action compulsory by 2007/08. The warning fed into the intelligence cycle and might result in Trade Assurance conducting an audit.
- 2.43 The second situation was that CusMod could be set up, where the intelligence existed, to notify a customs officer when certain entries were made by certain traders. In these situations, the goods might be held until they were inspected. If the Service was inspecting goods for other reasons, such as to detect goods that breached intellectual property rights or safety and security requirements, then it might consider valuation issues at the same time.

#### Checking valuations after goods are cleared

- 2.44 Audits were the main method for verifying valuations. Trade Assurance usually performed these after goods were cleared.

2.45 The Service gave high priority to valuation risks in assigning its audit resource. Valuation risk included all aspects of valuating goods on import (and export). It included risks relating to the classification and description of goods. It was one of the risk categories used to select trade sectors and traders for audit. Audits were tailored to the risks common to each trade sector.<sup>2</sup> However, the aim of all audits considering valuation risk was to ensure the integrity of the entry by detecting overpayments or underpayments of customs revenue.

#### **Telling trade sectors about valuation of goods**

2.46 Valuation issues can be complex, and it is important there is clear guidance for traders and individuals about the correct method for valuing goods. However, most entries are lodged through customs brokers.

2.47 When contacted by importers (or potential importers), the Service had information packs available containing the relevant fact sheets and forms, an outline of the Service's requirements, and the National Call Centre's telephone number.

2.48 Importers could seek a pre-importation ruling from the Service about goods they may import. Rulings gave importers certainty about how goods would be treated before they made a commitment to import them and only applied to the trader and goods covered by the ruling.

2.49 The Service's staff at the International Mail Centre were responsible for identifying potential customs revenue non-compliance, and the Service had a method for prioritising which parcels and mail it would screen and inspect. If goods were inspected and found not to have had an entry lodged when one should have been, the Service would hold the goods, contact the importer, and release the goods only after the importer had paid the applicable duties and GST.

2.50 Individuals importing goods (for example, through the Internet) may not be aware that they need to find out about the need to lodge an entry with the Service. Although information was available on the Service's website, many people may be unaware of their customs obligations. It is the importers' and not the exporters' responsibility to comply with the Act by lodging any necessary entries.

#### **The Service's policies and procedures**

2.51 The Service had a Valuation of Goods Policy, which gave staff information about valuation methods. It cross-referenced other policy documents that gave more detail about how staff should apply various valuation methods. There was a separate policy for Processing Accompanied Goods, which applied to goods brought in by passengers arriving at New Zealand airports and seaports.

<sup>2</sup> Examples of common risks are:

- An importer bringing in parts may have paid for an item in instalments, yet declare only the value of the last instalment on the entry.
- Cloth made here may be sent overseas to be made into clothing before the completed garment is imported into New Zealand.
- Importers may declare the value of the work in manufacturing the garments, but omit the value of the cloth.

## Our conclusions

- 2.52 The Service took valuation risk seriously. Checking only some valuations when entries were lodged was consistent with a voluntary compliance regime. The Service had systems that suitably addressed valuation risks for trade sectors and traders. However, in our view, the Service could do more to raise awareness about customs obligations among individuals who are importing goods.

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### Recommendation 1

We recommend that the New Zealand Customs Service do more to raise awareness about customs obligations among individuals who import goods.

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## Exchange rates

- 2.53 The exchange rate applied to goods is the rate in use on the date an entry is lodged with the Service. Exchange rates decide the value of goods that are declared to the Service in another currency. The method for setting the exchange rate can influence the amount of revenue due.
- 2.54 The Customs and Excise Regulations 1996 require the Comptroller to notify determinations of the fair rate of exchange in a Service publication. We expected the method for notifying the fair rate of exchange to be effective and efficient.

## Our findings

- 2.55 The Service had a four-week cycle for adjusting, notifying, and applying new exchange rates for 31 currencies. It published Exchange Rates Notices in *Customs Release*. To manage any volatility in exchange rates occurring after new rates are notified, the Service looked for significant rate movements during the period between when the rates were notified and when they came into force. Where a change was significant, the Service adjusted the rate. There was no documented threshold for deciding whether a change was significant – for example, 3% above or below the new rate.
- 2.56 The Service introduced the current method more than 20 years ago, after consulting with importers. As the price payable for imported goods had usually been determined well before importation, the method allowed importers to factor customs duties and GST into prices and accounting projections. The Service found the method administratively simple and, because of this, held the view that it promoted compliance and trade. From time to time, the Service consulted interested parties about the method, but because traders supported the current method no changes had been made.

- 2.57 The Service had not compared its method with alternatives. Therefore, we were unable to form a view about whether it is the most effective and efficient method.
- 2.58 We performed some limited analysis comparing the revenue that could have been collected for one major currency in one year if the Service had used the Reserve Bank of New Zealand's rate instead of the rate it currently uses. While our analysis was very limited and we couldn't draw any conclusions about whether the Service was under- or over-collecting revenue, our analysis indicated that the Service should periodically compare its method with alternatives. In addition, the Service had not tested the effect on customs revenue of altering the frequency of exchange rate changes or of quoting exchange rates to four decimal places, as is usual, rather than two.
- 2.59 Any review of alternative methods for setting the exchange rate or for altering the frequency of exchange rate changes also needs to consider any potentially adverse effects on compliance and administrative costs to the Service and to traders.

### Our conclusions

- 2.60 The current method for determining exchange rates was effective and efficient, but because the Service had not compared its method with alternatives we were not able to assess whether improvements could be made.

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### Recommendation 2

We recommend that the New Zealand Customs Service periodically review the effectiveness and efficiency of its method for setting the exchange rates used to determine the value of imported goods.

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### Working with other customs services

- 2.61 Because customs duties and GST become due when entries are lodged with the Service, overseas customs services do not have day-to-day involvement in collecting customs revenue. Nevertheless, co-operation between customs services has obvious benefits. It protects countries' economic, fiscal, and commercial interests, and ensures correct and efficient customs revenue collection.

2.62 A co-operative arrangement is a document signed by the chief executives of two customs services. The details of the co-operative arrangements vary, but they usually include agreement to help each other:

...(within their capacity and legislation):

- prevent, identify, investigate, suppress, and prosecute customs offences in their respective jurisdictions; and
- assess customs duties and other taxes.<sup>3</sup>

2.63 We expected the Service to have relationships with other customs services to help it collect customs revenue due in New Zealand.

### Our findings

2.64 The Service communicated with other countries about individual imports (or exports) as needed. It had co-operative arrangements with customs agencies in 10 countries that were significant trade partners. Free trade agreements included rules for the signatories covering customs procedures and related matters such as verifying the origin of goods. Under both co-operative arrangements and free trade agreements, customs agencies may also make formal requests for “mutual assistance”. This could involve, for example, inspecting goods on another country’s behalf.

2.65 The Service shared and received information through various bulletins and committees, including the relevant World Customs Organization (WCO) regional intelligence liaison office, the WCO Enforcements Committee, and the WCO committee for the Global Information Intelligence Strategy. The Service had annual Heads of Intelligence meetings with customs agencies from the United States of America, United Kingdom, Canada, and Australia. It had more frequent meetings with Australia, and the Comptroller visited HM Revenue and Customs (in the United Kingdom) each year. The Service had occasional meetings with other customs services, which were held in New Zealand or overseas.

### Our conclusions

2.66 The Service had made suitable arrangements to protect customs revenue by agreeing co-operative arrangements with overseas customs agencies, through committee memberships, and by participating in international meetings.

<sup>3</sup> From the Service’s template for co-operative arrangements, which is based on the World Customs Organization’s template.



## Part 3

# Receiving entries and calculating and collecting customs revenue

- 3.1 In this Part, we discuss the results of our examination of:
- the Service’s procedures for receiving entries and ensuring data integrity;
  - the Service’s controls for manual and electronic data entry;
  - CusMod’s business rules;
  - how CusMod calculates customs revenue;
  - how customs revenue recorded in CusMod is recorded in the FMIS;
  - the Service’s monitoring of the customs revenue collected; and
  - CusMod’s availability and integrity.
- 3.2 We subjected parts of CusMod and the FMIS to in-depth scrutiny. We report the results of our scrutiny and give examples, where practical, to explain the points we make.

### Receiving entries

- 3.3 The Act makes traders and individuals responsible for accurate and complete entries. After entries are lodged, the Service must ensure that entries are not accidentally or maliciously altered. We expected the systems for processing entries to have enough checks to ensure data integrity.

### Our findings

- 3.4 Automated validation checks occurred before the data from entries was transmitted into CusMod. About 650 errors can occur, and there were procedures to respond to them all. Entries could be sent back to traders to be corrected or assigned to a customs officer for the officer’s attention.
- 3.5 CusMod validated the amounts entered on entries against tables that contained exchange rates, tariff and concession rates, and predefined conditions or business rules data. CusMod checked that traders’ calculations were accurate. It checked, for example, for currency conversion, customs duties, and GST. If an entry had errors, it was rejected until the errors were corrected. When an entry was lodged again, the validation checks were repeated.
- 3.6 CusMod kept a full transaction history, including the user’s identification and the time and date of changes. If a user changed a transaction or message, then CusMod created a new version.
- 3.7 The Service’s staff reviewed the reports available to them to help identify data errors or anomalies within CusMod. The purpose of the reports was to help staff to resolve errors in a timely manner.

## Our conclusions

- 3.8 The Service had reliable and thorough systems to ensure that entries were accurate and complete, and that any alterations to entries were recorded. We were satisfied that unauthorised alterations would be discovered.

## Controls for manual and electronic data entry

- 3.9 We expected the Service to have identified and set up security measures to ensure CusMod's integrity. We expected those security measures to include restricting access to critical data tables.

## Our findings

### Staff access to CusMod

- 3.10 Providing, changing, or removing a user's access to CusMod required the use of standard forms and authorisation by a team leader. All users had unique accounts and individual passwords. CusMod worked with the network operating system to authenticate and authorise CusMod users. The Service's information technology staff were needed to reset forgotten user passwords. The Service had formal termination procedures for staff who no longer needed access to CusMod to ensure that a user's access was removed without undue delay. The Service reviewed whether staff still needed access to CusMod every six months.

### Changes to exchange rates, tariff and concession rates, and unique identifiers

- 3.11 We found that only approved staff had access to critical master files for exchange rates, tariff and concession rates, and related unique identifiers (such as the abbreviations assigned to countries, airports, and seaports).
- 3.12 The Comptroller had delegated three staff to update the exchange rates, and tariff and concession rates. They were the Tariff Co-ordinator, Team Leader Corporate Support, and Manager, Information Delivery Unit.
- 3.13 The Tariff Co-ordinator electronically updated the exchange rates in CusMod and on the Service's website. Before electronic changes were made, the Team Leader Corporate Support and, at times, the Manager, Information Delivery Unit, verified the proposed changes to exchange rates.
- 3.14 Business analysts handled change notifications that required many changes to the tariff and concession rate tables. The Tariff Co-ordinator performed random checks on changes. For notifications that required only a few changes, the Tariff Co-ordinator updated the tariff and concession tables. However, these changes were not checked by a second person.



- 3.15 The business analysts made changes to unique identifiers. These were reviewed within their unit before the changes were published.

### Our conclusions

- 3.16 Only approved staff were able to make changes to critical master files in CusMod for exchange rates, tariffs and concession rates, and unique identifiers. The procedures for updating exchange rate tables and publishing the new rates were satisfactory.
- 3.17 In our view, the procedures would be improved if all changes to tariff and concession rate master files were reviewed, including any changes considered to be “minor”.

### CusMod’s business rules

- 3.18 We expected the Service to have identified and documented the business rules needed to meet legislative requirements. We expected CusMod to meet these requirements.

### Our findings

- 3.19 The Service had identified and documented the business rules (the Business Rules Document). CusMod was designed to incorporate these rules. We reviewed selected business rules and found that they were consistent with the Act.
- 3.20 We tested 15 business rules within the Business Rules Document and found that CusMod was enforcing 11 of them. Although this indicated a high rate of non-enforcement, there was no adverse effect on revenue collection.
- 3.21 The support staff for CusMod were not using the Business Rules Document to maintain the business rules within CusMod. The Service told us that the Business Rules Document was written during the design phase when CusMod was introduced in 1996, and it had not been maintained. The absence of up-to-date documentation did not impede the Service from dealing with entries, because staff relied on CusMod’s source code to apply the business rules. As part of testing the accuracy with which customs revenue was calculated (see paragraphs 3.24-3.29), we tested the logic of some source code and found that it was sound.

### Our conclusions

- 3.22 Although most of the business rules we tested were being enforced, some were not. The Business Rules Document was not complete or up to date, but this did not have an adverse effect on customs revenue.

- 3.23 In our view, it is important that the Business Rules Document be complete and up to date, to ensure that all staff needing to use it have access to the correct information. It also ensures that the Service has sanctioned CusMod's source code and the practices staff have adopted match the Business Rules Document. There is a risk that the out-of-date Business Rules Document may be relied on, so the correct decisions and actions might not be taken. If CusMod were replaced, the Service would need to corroborate its existing Business Rules Document before it could be relied on or used in any business case or system design.

### Calculating customs revenue correctly within CusMod

- 3.24 We expected that CusMod would correctly calculate the applicable duties for each entry.

#### Our findings

- 3.25 As discussed in paragraphs 3.4-3.6, CusMod validated the trader's entry against various tables and predefined conditions, and automatically populated various fields.
- 3.26 The first step in calculating customs revenue is usually to decide the value for duty. CusMod found the lodgement date and the correct exchange rate, and calculated the value in New Zealand dollars based on the relevant duty rates. The duty rates considered any exemptions or other considerations that might affect the value (for example, diplomatic privileges).
- 3.27 We obtained one day's import transactions from CusMod and the same day's customs revenue transactions from the FMIS. Our testing showed that CusMod correctly calculated the duty for each entry, although we did not find any documented business rules for "duty rate" and "import duty" in the Business Rules Document.
- 3.28 Two customs brokers gave us electronic copies of their import entries for September 2006, and we matched these with information from CusMod for that month. We tested the calculations on 10 entries (five from each broker), and they were correct.

#### Our conclusions

- 3.29 CusMod correctly calculated the duty owed for each entry. However, not all of the business rules for calculating duty that should be documented were included in the Business Rules Document. We found no evidence that the lack of documentation adversely affected customs revenue.

**Recommendation 3**

We recommend that the New Zealand Customs Service update its business rules for collecting revenue to ensure that the documents are complete and accurate, which includes clarifying the business rules for duty rate and import duty, confirming through testing that CusMod is performing as intended, and taking any remedial action necessary to ensure that customs revenue continues to be correctly calculated.

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**Ensuring that customs revenue recorded in CusMod is recorded in the financial management information system**

- 3.30 About 99% of entries are lodged electronically through customs brokers. The rest are received through the Service's website or are manually entered by staff. Based on the information provided, CusMod calculates the duty owed on each entry. CusMod does not create the invoice for the duty owed. The FMIS does this using information extracted from CusMod. Therefore, it is important that the customs revenue information in CusMod is accurately and completely transferred to the FMIS.

**Our findings**

- 3.31 The Service produced two daily balancing reports to ensure that the duty CusMod calculated as being owed was sent to the FMIS. One report came from CusMod, and the other from the FMIS. The Service put these reports into a third document in which the data was electronically sorted and compared. This produced a report of any differences, and the Service looked into and corrected the differences. The last time the Service found that the reports did not balance was in 2004. We matched the daily reports for September 2006 and found that they agreed exactly.
- 3.32 We documented and tested the procedures and controls that the Service performed to ensure that the data transferred from CusMod to the FMIS was accurate and complete. We extracted a day's transactions and successfully reconciled the two systems.
- 3.33 At the end of each month, the Service's finance department produced a report from the FMIS for the Comptroller showing the customs revenue collected that month (and for the year to date).

**Our conclusions**

- 3.34 The Service's procedures and controls enabled it to ensure that the CusMod and FMIS systems reconciled and that customs revenue information was correctly passed between them and reported to the Comptroller.

## CusMod's availability and integrity

- 3.35 Because nearly all entries are lodged electronically, CusMod is essential for customs revenue collection. Traders need 24-hour access to lodge entries. Once entries are lodged, traders are entitled to expect the Service to ensure that entries are not lost because of any information technology failure. If losing entries could not be prevented, we expected the Service to ensure that the quantity of the loss was the smallest possible to reduce the cost of relodging or recovering lost entries. If entries are not recovered or the data is corrupted, the customs revenue to the Crown may be adversely affected.
- 3.36 We expected the Service to make CusMod continuously available to staff during working hours. Although delays in processing may reduce efficiency, they would not affect the customs revenue collected. We expected CusMod and its related systems to be protected from unauthorised access.

## Our findings

### Disaster plans and CusMod's availability

- 3.37 The Service had a documented business continuity plan and information technology disaster recovery plan. We sighted these plans and other documents, such as the disaster management plan that described the disaster management processes and the disaster management team's responsibilities. The plans and the documents supporting them had yet to be updated to reflect changes to the information technology infrastructure, and contact details for crucial people were incomplete.
- 3.38 The information technology disaster recovery plan was last tested in May 2006. This included a full test of CusMod's software and hardware configuration.
- 3.39 The main server for CusMod, which also housed the FMIS, was in Auckland. The disaster recovery server was in Wellington, so the Service had the ability to resume or continue operations if a disaster affected the Auckland server.
- 3.40 The contingency arrangements for CusMod meant that, if the system failed, in most cases the Service would only "lose" entries that had been lodged up to 15 minutes before the interruption occurred. Because of the procedures for lodging entries and confirming their receipt, the Service was able to ask users to confirm they had receipts for all entries lodged. In this way, lost entries could be identified and sent again to the Service for processing.
- 3.41 The company that provided a managed messaging service for the Service (see paragraph 3.43) also told us that it had disaster recovery procedures for its critical e-mail servers. The backup systems were activated without users needing

to reboot their workstation or restart their application. The purpose of these procedures was to prevent entries being lost between importers and the Service. We did not audit these procedures.

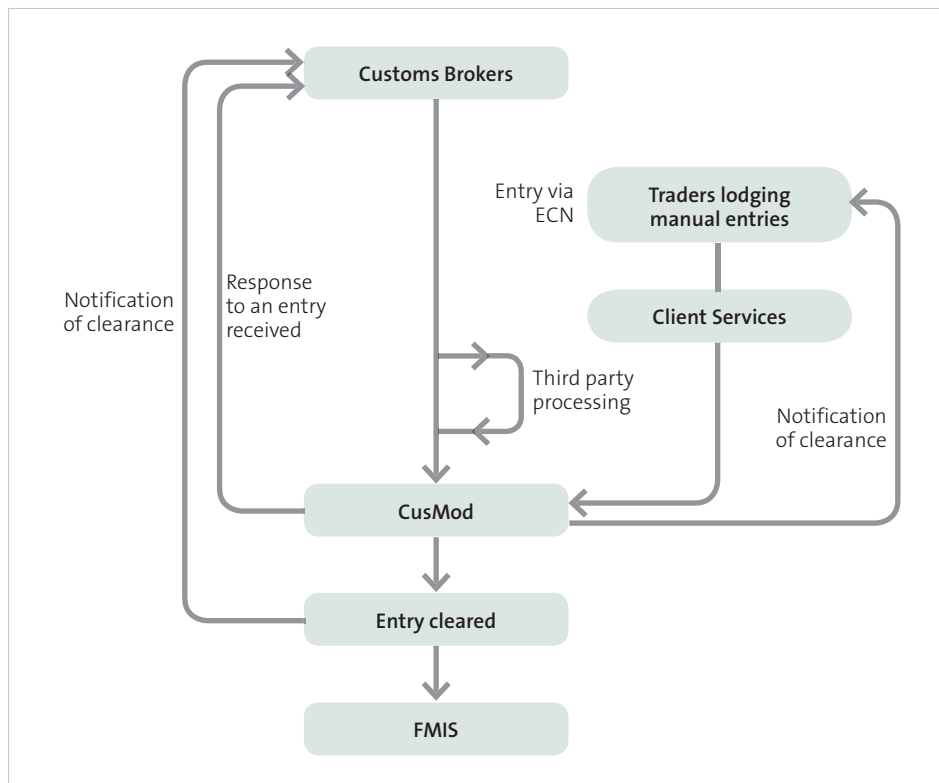
- 3.42 CusMod was available to staff during working hours nearly all of the time, except for planned outages for improvements and testing.

### Security

- 3.43 Traders and individuals did not have direct access to CusMod. Traders who lodged entries independently completed the relevant forms, which the Service's staff entered into CusMod. Figure 5 shows the path and responsibility for lodging and receipting entries. Customs brokers' entries were passed to the Service through a managed messaging service.

**Figure 5**  
Processing customs entries

This figure shows the path for lodging entries, their receipt by the Service, and their transfer to the FMIS.



Source: Adapted from the Service's information.

- 3.44 Customs brokers were assigned a personal identification number and entries were rejected if they failed the authentication procedures. The Service had procedures to detect whether messages CusMod received had been altered during transmission.
- 3.45 About 70% of customs brokers used a third-party brokerage system that sent copies of messages to the third-party company's Australian-based repository, where they were stored for support and error-management purposes.
- 3.46 When CusMod received entries from the managed messaging service, a Customs Response was sent in reply. For the 70% of customs brokers using the third-party company, the Customs Response was relayed to the Australian-based site, repackaged (without any change to the data), and sent to the broker. Other customs brokers received the Customs Response directly.
- 3.47 To ensure the integrity of messages sent to the Service and to prevent them being rejected, the trader electronically signed messages using a personal identification number and encryption algorithm provided by the Service. The signing process effectively prevented any tampering with the message.

### Our conclusions

- 3.48 CusMod was available to staff when they needed it.
- 3.49 The Service had disaster recovery plans for all the relevant information technology systems for which we expected it to have plans. Some information supporting the plans was out of date or incomplete. The nature and extent of a disaster or system failure would have varying effects on traders and the Service's ability to process entries. In most circumstances, the Service should be able to continue business without invoking full disaster recovery.
- 3.50 The Service had in place effective procedures to assure it and traders that entries were lodged safely and that measures to prevent tampering were effective.

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### Recommendation 4

We recommend that the New Zealand Customs Service ensure that its disaster recovery plans and supporting documents accurately and completely reflect the current information technology infrastructure and the contact details for crucial people.

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## Part 4

# Performance reporting

- 4.1 In this Part, we discuss:
- the integrity of the Service’s performance measurement information;
  - the measures used to report on the effectiveness and efficiency of customs revenue collection;
  - monitoring compliance; and
  - how the Service compared its performance with other customs services.

### The integrity of performance information

- 4.2 We expected the data used to report performance measures in the Service’s accountability documents to be accurate and complete.

#### Our findings

- 4.3 The customs revenue collection performance measures were a mix of financial and non-financial measures, which we list in the Appendix. The Service obtained figures for some activity and financial measures from information held in CusMod and the FMIS (see rows 1, 2, and 4 to 8 of the Appendix). As we reported in Part 3, this information was accurate and complete.
- 4.4 For other quantitative measures (see rows 3 and 12 to 14 of the Appendix), such as the number of revenue audits carried out, the Service kept statistics. We randomly selected one of these measures, and the Service produced an audit trail showing how the statistics were collected.

#### Our conclusion

- 4.5 The data the Service used to report performance measures was accurate and complete.

### Measuring the effectiveness and efficiency of customs revenue collection

- 4.6 The Public Finance Act 1989 requires a government department’s annual report to contain, among other things, a Statement of Service Performance that includes, for each class of outputs, the standard of delivery performance achieved compared with the forecast standards.
- 4.7 The purpose of measures and standards is to produce information to enable an informed assessment of a department’s performance during the year.

- 4.8 Annual reports should help answer the question “What difference did you make?” We have published *Reporting Public Sector Performance*<sup>1</sup> to stimulate discussion about how public entities measure and report performance. Our report can help in considering measures to report performance.
- 4.9 We expected the Service’s performance measures in its annual report to provide assurance over the customs revenue and about the effectiveness and efficiency of customs revenue collection.

### Our findings

- 4.10 The Service prepared an annual report that included a Statement of Service Performance reporting performance against measures and standards compared with the previous year.
- 4.11 The measures can be characterised mainly as “busyness” measures, which are often demand-driven. They described how many activities were carried out and, in some cases, how well. Therefore, they generally did not assess the Service’s performance in revenue collection.
- 4.12 Despite the voluntary compliance regime, which relies on individuals and traders understanding what they need to do to comply with customs legislation, there were no measures about information or education. For example, there were no measures about issuing accurate procedure statements for CCAs or about educational visits to CCA licensees or traders.
- 4.13 In the body of its annual report (but not in the Statement of Service Performance), the Service reported continuing improvements in the cost-efficiency of its revenue collection. In the year ended 30 June 2006, the Service collected about \$3,000 for every dollar spent to collect revenue. However, it did not include all costs spent to collect revenue. The ratio reported on a narrow range of costs within the *Revenue collection, accounting and debt management* output class, which were mostly the costs of running the National Credit Control Unit and some costs from the finance department.
- 4.14 The Service’s 2006/07 Annual Plan included a project to comprehensively review the output classes it used to report its performance, including its performance measures, and then to review its costing model. This project was in progress during our audit. Although we saw some of the Service’s draft documents, because the contents were subject to change we did not review them.

1 Second edition, January 2002, [www.oag.govt.nz](http://www.oag.govt.nz).



### Our conclusions

- 4.15 The Service's measures did not enable a reader to assess the Service's effectiveness or efficiency and did not cover the whole voluntary compliance regime. The measures provide information about some aspects of the voluntary compliance regime but do not give assurance about the whole of its customs revenue arrangements.
- 

#### Recommendation 5

We recommend that the New Zealand Customs Service enhance its performance reporting measures to illustrate the contribution of all of its activities – including education, intelligence, and audit – to the voluntary compliance regime.

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### Monitoring compliance

- 4.16 One of the difficult areas for revenue collecting agencies is to know whether all the revenue that should be collected is being collected. Nevertheless, we expected the Service to be able to demonstrate, to the greatest degree practicable, whether compliance with the Act was improving.
- 4.17 We know that not all the customs revenue due is collected. This is because, in any voluntary compliance regime, a balance is struck between the cost-effective collection of revenue and encouraging trade through the efficient flow of goods. The Government accepts that every transaction cannot be audited. However, there is an expectation that other measures will reduce, to the lowest degree practicable, the unpaid customs revenue.

### Our findings

- 4.18 We could not assess from the information available whether compliance was improving. For example, there was no analysis of the reasons for customs revenue not being collected and no analysis of trends in reasons for non-compliance.
- 4.19 One of the Service's strategic goals was to provide increased assurance about the integrity of customs revenue collection. To achieve this goal, in 2006/07 it intended to develop and trial a method for assessing the level of customs revenue collected. It then planned to use that understanding to target ways of reducing the customs revenue not collected. At the time of our audit, this work was in progress. It built on work the Service commissioned in 2004 to "estimate and target so-called revenue gaps".

### Our conclusions

- 4.20 We could not assess from the information available whether compliance with customs revenue requirements was improving, and we recognise that this can be a difficult area for revenue collecting agencies to address. We are interested in the results of the Service's project to develop and trial a method for assessing the level of customs revenue collected.

### Comparing performance with other customs agencies

- 4.21 We expected the Service to compare its performance with other countries to help it identify areas to improve the effectiveness and efficiency of customs revenue collection.

### Our findings

- 4.22 The Service did not undertake formal benchmarking projects or compare key performance measures with other customs agencies. The Service told us that it had not yet found a customs agency similar enough to make comparisons feasible. The Service continued to seek opportunities to undertake formal comparisons.
- 4.23 The Service kept an extensive calendar of international meetings and events, so staff could find out when meetings would be held and who, if anyone, the Service would send. As part of its continuing contact with other customs agencies, the Service was able to compare its performance with those agencies in various ways.
- 4.24 Customs agencies collaborated through the WCO to improve performance in all aspects of customs. The Service was able to use the WCO's resources as needed:
- In 2006, the WCO created WorldCap, an information management database with data from member countries, to support capacity building initiatives and benchmarking, and promote partnerships between members.
  - In 2005, the WCO published a *Compendium of Integrity Best Practices* that included two examples from New Zealand.
- 4.25 The WCO was directed by the full Council of 169 member countries and the 24-member Policy Commission. The Service was a member of the Policy Commission, and expected to be increasingly looked to for the contribution it could make to capacity building for less-developed member countries and to the WCO at a strategic and policy level.

- 4.26 As an example of this, in January 2007, because of the views the Service expressed at a WCO meeting in India and a book it commissioned from the Institute of Policy Studies,<sup>2</sup> the WCO's Secretary General asked the Service to produce a discussion paper that gave an independent (that is, non-customs) view of:
- what the border might look like in the 21st century; and
  - how customs agencies would interact with that border and with their main stakeholders.

### Our conclusion

- 4.27 Through its international contacts and participation in joint activities, the Service had opportunities to assess its performance with other countries. However, there are difficulties with undertaking formal benchmarking between different revenue collection systems.

<sup>2</sup> Andrew Ladley and Nicola White (2006), *Conceptualising the Border*, Institute of Policy Studies, Wellington.



# Appendix

## The New Zealand Customs Service's revenue collection performance measures

We have reproduced the Service's performance measures for customs revenue collection below. These measures are from the Service's Statement of Service Performance in its annual report for the year ended 30 June 2006.

Row	Output class for reporting performance	Type of measure	Measure	Standard to be achieved
1.	Clearance of import, export and excise transactions	Quantity	Import, including mail, transactions processed	47.4-52.8 million
2.	Clearance of import, export and excise transactions	Quantity	Excise returns	4588-5070
3.	Clearance of import, export and excise transactions	Quantity	Revenue audits undertaken	443-541
4.	Clearance of import, export and excise transactions	Quality	Import and export transactions (other than those referred for compliance checks) processed (including assessment against business rules and intelligence alerts) within agreed timeframes	Minimum 95%
5.	Clearance of import, export and excise transactions	Quality	Revenue leakage prevented as a result of compliance checking	\$15 million
6.	Revenue collection, accounting and debt management	Quantity	Crown revenue collected	\$8.2 billion
7.	Revenue collection, accounting and debt management	Quantity	Value of payments made: refunds/drawbacks	\$31 million
8.	Revenue collection, accounting and debt management	Quantity	New applications Deferred Payment and Credit Facility for Broker accounts processed	550-700

Row	Output class for reporting performance	Type of measure	Measure	Standard to be achieved
9.	Revenue collection, accounting and debt management	Quality	Professional, best practice credit management that complies with Customs' Credit Control and Debt Management policies and procedures and is consistent with the Customs and Excise Act 1996 and related commercial legislation, e.g. the Companies Act 1993	Yes
10.	Revenue collection, accounting and debt management	Quality	Effective and timely management of debt, with aged debt profiles to be trending downwards in volume and in \$'s outstanding, and debt write-offs to be no more than 0.01% of total Crown customs revenue collected	Yes
11.	Revenue collection, accounting and debt management	Quality	Continued cost-efficient collection of \$8.205 billion Crown Customs revenue within the output class funding allocated	Yes
12.	Technical advisory services	Quantity	Binding rulings given	260
13.	Technical advisory services	Quality	Rulings taken to appeal sustained	Minimum 60%
14.	Technical advisory services	Quality	Classification and concession rulings and export classification opinions will be issued within 20 working days of lodgement of all necessary information	Minimum 90%

# Publications by the Auditor-General

Other publications issued by the Auditor-General recently have been:

- Ministry of Health and district health boards: Effectiveness of the “Get Checked” diabetes programme
- Guidance for members of local authorities about the law on conflicts of interest
- Managing conflicts of interest: Guidance for public entities
- Te Puni Kōkiri: Administration of grant programmes
- New Zealand Qualifications Authority: Monitoring the quality of polytechnic education
- Annual Plan 2007/08 – B.28AP(07)
- Waste management planning by territorial authorities
- Central government: Results of the 2005/06 audits – B.29[07a]
- Department of Internal Affairs: Effectiveness of controls on non-casino gaming machines
- Controlling sensitive expenditure: Guidelines for public entities
- Performance of the contact centre for Work and Income
- Residential rates postponement
- Allocation of the 2002-05 Health Funding Package
- Advertising expenditure incurred by the Parliamentary Service in the three months before the 2005 General Election

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