

New Zealand Customs Service: Managing Trade Assurance capability risks

Progress in responding to
the Auditor-General's
recommendations

This is an independent assurance
report about a performance audit
carried out under section 21 of the
Public Audit Act 2001.

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Introduction

- 1.1 In 2011, we carried out a performance audit to assess how effectively the New Zealand Customs Service (Customs) plans and supports its revenue assurance work. We found that:
- Customs had most of the planning and supporting systems and structures it needed to effectively provide revenue assurance;
 - Customs risked losing staff capability in its Trade Assurance business unit; and
 - Customs did not have sufficiently clear, consistent, and up-to-date written guidance to help Trade Assurance staff carry out their audit work.
- 1.2 Customs collects about 15% of the Government's total revenue. In 2012/13, this was about \$11.2 billion. Customs' approach to collecting revenue is based on voluntary compliance, relying on traders correctly declaring the amount that they owe in goods and services tax on imports, customs duty on imported goods, and excise duty on alcohol, tobacco, and petroleum products made in New Zealand.
- 1.3 Trade Assurance is responsible for providing assurance that traders comply with requirements. Each year, Trade Assurance carries out thousands of audits to check whether traders have correctly declared how much they owe.
- 1.4 In July 2013, we began work to see what progress Customs had made with our 2011 recommendations about staff capability and written guidance. Our 2011 audit focused on Trade Assurance's revenue assurance activities. We did not examine the activities of other Customs business units as part of our follow-up work.
- 1.5 In our view, Customs has produced clear and consistent manuals to support Trade Assurance's auditing work. However, although Customs has undertaken capability-related reviews and prepared other relevant documents, it has made limited progress with risk mitigation initiatives.
- 1.6 Since our audit, Customs has carried out capability-related reviews and prepared other documents relevant to Trade Assurance's capability but this work has resulted in limited action. Trade Assurance has also moved to a more intelligence-led, risk-based approach to audits through its Trade Assurance Strategy and Work Programme 2012/13 (the new model). Customs told us that its new approach means that Trade Assurance can operate with fewer staff.
- 1.7 It is too soon to tell whether these changes have mitigated capability risks and Trade Assurance's capability can effectively support the new model. The work involved in each audit under the new operating model has increased in complexity and there has been a reduction in staffing levels (reportedly enabled by the new operating model).

- 1.8 In our view, Trade Assurance's capability risks concerning the age of its staff and the time it takes to train new staff are still significant.

Support materials for staff

- 1.9 In our view, Customs now has a wider range of better quality written guidance for Trade Assurance staff. After we published our 2011 report, Customs began a project to create audit user manuals (the manuals) for Trade Assurance staff. The manuals are designed to support Trade Assurance staff in completing and reporting on audit activity.
- 1.10 The manuals project started in 2011 and was completed in 2013, when Customs released the manuals to staff in hard copy and online formats. The manuals took two years to produce because they were written by one part-time person and because of the detailed nature of creating the manuals.
- 1.11 Customs took a thorough approach in creating the manuals. The manuals were written by a retired former senior Trade Assurance staff member with significant audit experience. Senior staff peer reviewed the work. Customs also held a round of consultation with staff who are regarded internally as subject-matter experts.
- 1.12 In our view, the manuals are clear and consistent. They identify the information that Trade Assurance staff need to collect and understand during an audit, as well as the steps needed to carry out the audit. They cover the full range of Trade Assurance compliance activity.
- 1.13 Customs has two ways to update the manuals. Urgent changes can be made immediately by a restricted number of staff with administration rights. More routine amendments or updates can be incorporated during an annual review.

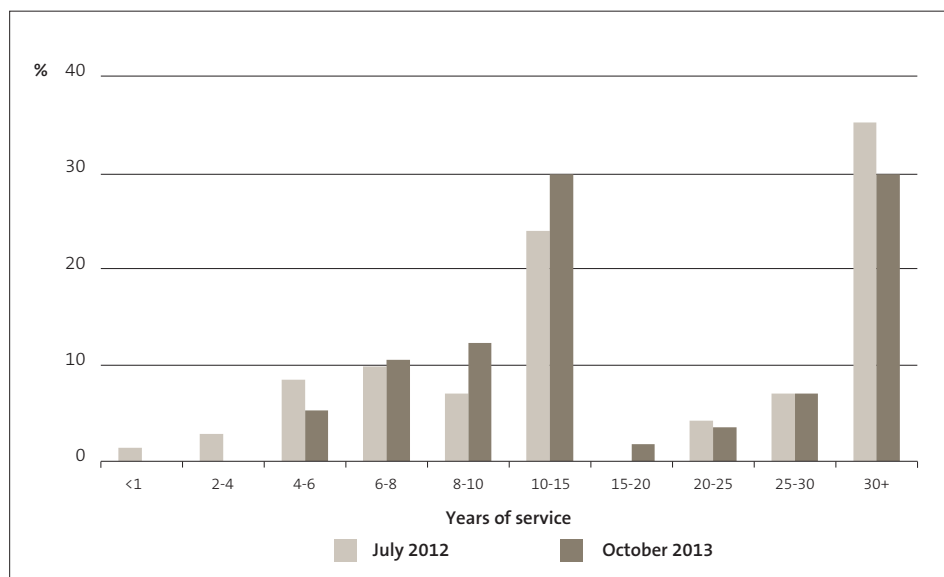
Trade Assurance's staff capability risks

- 1.14 Trade Assurance's work is complex. It takes at least four to five years for staff to become fully competent in carrying out the work. Developing and retaining people with high-level skills is critical to the unit's success. We recognised this as a capability risk for Customs in our 2011 report.
- 1.15 At the time of our 2011 audit, the risk was compounded by the number of experienced staff who had recently retired or were approaching retirement age. The skills held by these long-serving Trade Assurance staff would be lost once these staff moved on.

Trade Assurance's capability risks are still significant

1.16 Trade Assurance still faces significant capability risks. Trade Assurance has lost a number of long-serving experienced staff since our 2011 audit. Trade Assurance still has an ageing workforce. Figure 1 shows that almost 30% of Trade Assurance staff have worked for Customs for more than 30 years, and another nearly 30% for 10-15 years. Many of these very experienced staff are approaching retirement age. More than a third of Trade Assurance's workforce is aged 55 years and over.

Figure 1
 Percentage of Trade Assurance staff by length of service, 2012 and 2013



Source: Customs.

1.17 This means that Trade Assurance will continue to lose people with extensive experience of the business. Also, the time it takes for Trade Assurance staff to become fully competent has not changed. This is similar to the situation we found in 2011, when Customs had an ageing workforce and work that requires many years to master.

The context for assessing Customs' progress in managing Trade Assurance's capability risks

1.18 It is important to consider Customs' progress with our recommendations against the background of the public sector environment since our 2011 audit. Customs told us that in line with other public sector agencies, and because of the fiscal environment, it has been looking for efficiencies.

- 1.19 The Trade Assurance Strategy and Work Programme noted that a Trade Assurance Succession Plan was designed to overcome concerns expressed by our Office that Customs needed to recognise and address a “pending capability problem”.
- 1.20 We looked at the implementation of initiatives identified in this Succession Plan and the difference that this has made. The Succession Plan initiatives were discussed in a Trade Assurance Review carried out in 2012. Although this review was superseded by Project Compass (an organisation-wide change programme), we also looked at the implementation of relevant recommendations from this review.

Customs’ progress in managing Trade Assurance’s capability risks

- 1.21 Building capability takes time, and it needs a robust plan and targeted action. Since our July 2011 report, Customs has carried out capability-related reviews and prepared other relevant documents (the reviews). Figure 2 outlines the reviews.

Figure 2
Customs’ initiatives relating to Trade Assurance capability since September 2011

Date	Capability-related reviews
September 2011	Customs prepares a paper, <i>Succession Plan for Trade Assurance</i> . The Succession Plan was to form the basis for developing a succession strategy to address the risks highlighted in our 2011 report. The Succession Plan identified 11 initiatives that Customs could use to help mitigate the risks from loss of capability but no succession strategy was developed, tested, or implemented.
November 2012	Trade Assurance Review is tabled before senior Customs management. The review made five capability-related recommendations intended to enhance and sustain capability within Trade Assurance. The review was superseded by Project Compass (an organisation-wide change programme) and did not advance to the implementation phase.
July 2013	Changes following Project Compass take effect. As a result of Project Compass, Customs formed a new Revenue and Assurance Directorate. Trade Assurance and two other Customs units responsible for collecting revenue were placed in this new Directorate. As at November 2013, Customs is reviewing the Directorate’s functions. Customs told us that the structure for the Revenue and Assurance Directorate is likely to be confirmed by 1 June 2014.
November 2013	Review of Customs’ Workforce Strategy 2012-16 is under way. The New Zealand Customs Service Workforce Strategy 2012-16 identified a number of issues directly related to Trade Assurance’s capability needs. Customs staff told us that the Workforce Strategy is under review from November 2013, as part of Customs’ four-year plan update. Customs told us that the updated four-year plan will include a requirement to increase staff capability.

- 1.22 Some of the reviews were organisation-wide and some were restricted to Trade Assurance. Although each review was different, most restated the risks that Trade Assurance faces from capability loss and proposed similar actions to address those risks. To date, each review has been followed by only limited action regarding Trade Assurance's capability risks.
- 1.23 The appendix shows the initiatives that Customs identified in 2011 and 2012 (through the Succession Plan and Trade Assurance Review) to address Trade Assurance's capability risks and the progress that Customs has made with each initiative. Overall, limited progress has been made against these initiatives. The effectiveness of this progress, especially in ensuring that Trade Assurance has the capability needed to deliver Trade Assurance's new operating model, will only become apparent with time.

Appendix

Progress of initiatives to mitigate capability risks in Trade Assurance

Initiative	Progress
Staff retention and development	
Developing a tertiary qualification that includes a specialist audit component.	<p>This qualification has been developed. A precondition for obtaining the new tertiary qualification for Trade Assurance is that officers complete a general, but relevant, Customs qualification. The new qualification builds on the general qualification and is more specific.</p> <p>Customs told us that 23 Trade Assurance Officers will have obtained the general qualification by the end of 2013. Two Trade Assurance staff have graduated with the newly developed specialist qualification and four additional Trade Assurance staff are studying to obtain this qualification.</p>
Implementing a “buddy” system for less experienced staff.	<p>Customs told us that it had deliberately mixed together more experienced staff with less experienced staff within the Trade Assurance unit when it put in place the new Trade Assurance structure in July 2013. The new structure is expected to be confirmed by 1 June 2014.</p> <p>This has the potential to encourage the transfer of institutional knowledge and help with the informal development of newer officers and specialists.</p>
Realigning the structure of Trade Assurance.	<p>The new Trade Assurance structure was put in place in July 2013. The aim of the new structure is to improve the way in which Trade Assurance deals with risk, prioritises its workload, and allocates its resources.</p> <p>The structure now comprises three different workstreams or “focus groups”:</p> <ul style="list-style-type: none"> · Licensing; · Revenue; and · Supply Chain – Trade Data. <p>Another feature of the new structure is the Trade Assurance Centralisation Team (TACT). TACT has a central role in receiving, recording, allocating, overseeing, and reporting the work that Trade Assurance does. In our view, this should help Customs to better manage its Trade Assurance capability risks.</p> <p>Customs told us that the new operating model for Trade Assurance directly influenced this restructure. As previously mentioned, Customs expects that this structure will be ratified in the confirmation of the Revenue and Assurance Directorate structure.</p>

Initiative	Progress
<p>Recognising and rewarding specialist staff as a way to encourage retention.</p>	<p>Progress in this area has been mixed.</p> <p>The reward scale for specialists has not changed since 2008.</p> <p>From July 2013, specialists were able to become “focus group leads” as part of the new Trade Assurance structure. This means that they are nationally recognised as a leading specialist within one of the three Trade Assurance workstreams.</p> <p>The pathway for people to become “focus group leads” is subject to positions being available and to business requirements.</p> <p>Customs told us that there have been adjustments to recognition and reward through contract negotiations, and staff have had annual performance reviews that inform any position in band progression and increased remuneration. Customs also told us that there is an option to make one-off payments to recognise superior performance.</p>
<p>Enhancing the existing Trade Assurance training programme through a formalised and structured approach.</p>	<p>In our 2011 audit, we recognised that Customs had a good framework for training Trade Assurance Officers.</p> <p>We looked for evidence of a formalised and structured approach to the Trade Assurance training programme as per a recommendation from the Trade Assurance Review.</p> <p>A training programme, the Trade Assurance Staff Development Guide and Training Plan, was finalised in November 2013, and Customs reports that it was issued in the latter part of 2013. We note that some courses/ training in this guide are either still under development, only available externally, or not yet available.</p> <p>In our view, this is a general staff development guide, not a formalised and structured training programme as intended.</p>

Initiative	Progress
<p>Identifying and developing existing subject-matter experts.</p>	<p>The new Trade Assurance structure should allow for the development of existing subject-matter experts.</p> <p>The development of existing subject-matter experts should also be assisted by the staff development guide now that it has been finalised and issued.</p> <p>We also note that Customs' Leadership Framework was released in September 2013. This places value on thought leadership provided by specialists as distinct from people leaders, and signals development opportunities for specialists.</p>
<p>Forming a close working relationship between Trade Assurance and Client Services (now Service Delivery).</p>	<p>In terms of capability, the main objective of this initiative was to encourage staff development through their movement between the two units because of the close knowledge "synergy" between the two units.</p> <p>Since our report in July 2011, and as at March 2014, there had been 10 occasions of staff movement from Trade Assurance to Client Services (now Service Delivery) and five occasions of staff movement from Client Services to Trade Assurance.</p> <p>The reasons for this movement included career development and information-sharing, Customs rotation programmes, and meeting resource requirements.</p> <p>In our view, this staff movement is encouraging. However, movement between these units could be more balanced. We encourage the achievement of the outcome of providing staff with valuable knowledge that they can take back to the unit that they came from for their career development as well as knowledge-sharing between the two units.</p>
<p>Changing Customs' rotation policy.</p>	<p>Customs' rotation policy could be a barrier to specialist career development if it is not carefully managed.</p> <p>The Trade Assurance Review noted that:</p> <p><i>The current rotation policy is appropriate for the leadership team but potential rotation of technical specialists is a significant risk for the capability needs within Trade Assurance and should be reviewed.</i></p> <p>As at November 2013, Customs had not made changes to its rotation policy to assist with the retention of specialist knowledge.</p>
<p>Greater interaction and "synergy" with Australian Customs and Border Protection and Inland Revenue Department Auditors.</p>	<p>Customs told us that Trade Assurance management is exploring secondment and exchange programmes with both the Inland Revenue Department and the Serious Fraud Office under existing Memorandum of Understanding instruments.</p> <p>We found no evidence of auditor exchange programmes in the past.</p>

Initiative	Progress
Secondments of Band 40 Customs Officers into Trade Assurance to trial capability and assist with succession planning.	To date, no secondments have occurred.
Staff recruitment	
Developing a formal process so that new Customs recruits with the educational qualifications and skills appropriate for the Trade Assurance environment are identified early in their career and offered an opportunity to work in the unit.	Of 24 new recruits, Customs identified some in November 2013 as having the requisite skills for Trade Assurance. We found no evidence of any process to actively monitor and manage these recruits towards a career in Trade Assurance.
Filling the current funded vacant positions in Trade Assurance.	In November 2012, Customs identified in its Trade Assurance Review that the current funded vacancies in Trade Assurance needed to be filled immediately. The review identified significant capability and delivery risks if this was not achieved. As previously mentioned, this review was then superseded by Project Compass. Project Compass meant that a further 12 Trade Assurance staff were lost to voluntary redundancy. Customs reports that there are no current funded vacancies in Trade Assurance. Customs told us that its new intelligence-led, risk-based approach means that Trade Assurance can operate with fewer staff. Customs was unable to tell us how many people it will need under this new model, and it is too soon to tell how the reduced staffing levels will affect the ongoing implementation of Trade Assurance's new operating model.
Accessing people with the required technical skills	
Taking a flexible approach to recruiting people with specialist skills from outside Customs based on business needs.	The Trade Assurance Review recommended that a flexible approach to recruiting people with specialist skills "on a business needs basis" could help to enhance capability. We found no evidence, other than the temporary engagement of the former Trade Assurance staff member to prepare the manuals, that recruiting people with specialist skills from outside Customs had been explored or used as an approach.