



THE HON. PETER SLIPPER MP

Parliamentary Secretary to the Minister for Finance and Administration 22-3-99  
Federal Member for Fisher

22 MAR 99  
22-3-99

Mr Bob Charles MP  
Chairman  
Joint Committee of Public Accounts and Audit  
Parliament House  
CANBERRA ACT 2600

Dear Bob

Dear Mr Charles

**JCPAA Report 360**

In accordance with agreed arrangements, I enclose the Finance Minute on the Committee's 360th Report entitled *Internet Commerce*.

Yours sincerely

PETER SLIPPER

15/1/99



## FINANCE MINUTE: JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT REPORT 360

### INTERNET COMMERCE – TO BUY OR NOT TO BUY

The responses to the Committee's recommendations are prepared on the basis of information received from the Australian Bureau of Statistics, the Australian Taxation Office, the Australian Customs Service and Australia Post. A Government response to policy matters raised in recommendations 3, 4, 5, 6, 9,10, 13, 15, 16 and 17 is being coordinated by the Treasury.

#### Recommendation 1 (paragraph 2.43)

##### **The Australian Bureau of Statistics should:**

- (a) conduct on an annual basis the Household Use of Information Technology Survey; and**
- (b) wherever possible include internet commerce and usage data items into all existing business and economic surveys.**

#### **Response by the Australian Bureau of Statistics (ABS)**

##### **Recommendation 1 (a):**

2. The ABS now plans to collect information on household use of information technology and telecommunications (IT&T) every quarter. Detailed surveys of households which measure the penetration and other aspects of the use of a range of IT&T goods and services were conducted in February 1994 and for four quarters (February, May, August and November) of 1996. A comparable collection is currently being conducted for the same four quarters of 1998. The latest surveys will provide comprehensive data on Internet use and the extent of households' participation in "commerce" over the Internet.

3. Similar detailed quarterly surveys are proposed for the year 2000 and at two-yearly intervals thereafter. In the intervening years (ie. for 1999, 2001, etc.) the ABS will collect a truncated data set. Core data on IT&T penetration and Internet and e-commerce use by householders will be collected in those years.

##### **Recommendation 1 (b):**

4. Rather than including questions on Internet Commerce and usage in all existing business and economic surveys, the ABS proposes to undertake a detailed survey of business use of IT&T every second year, to coincide with the detailed household use surveys. For reference year 1997-98 such a survey of business and government use has been implemented. This survey will provide data on access to the Internet and World Wide Web for all industries, except agriculture, as well as the business functions

undertaken using on-line commerce and other electronic commerce activities and facilities.

5. In addition, questions have been included as part of the annual Agricultural Commodity survey to provide information about the farm sector's use of information technology and the Internet. The ABS is also investigating options for providing some sub-annual measures of electronic commerce and Internet usage by the business community.

Recommendation 2 (paragraph 4.23)

**The Australian Taxation Office must continue to monitor the risks to income tax and the tax system generally from internet commerce, continue to enhance methodologies for determining revenue loss, and report its findings on a regular basis in its annual report.**

**Response by the Australian Taxation Office (ATO)**

6. The ATO will

- (a) continue to monitor the risks to the tax system from Internet commerce;
- (b) continue to enhance its risk assessment methodologies for determining any significant revenue losses from Internet commerce; and
- (c) report its findings on a regular basis in its annual report.

7. The ATO's electronic commerce project team is continuing to analyse and refine its assessment of the challenges and opportunities posed by electronic commerce conducted on the Internet. The project team has identified some definitive indicators of the risks to the revenue base.

8. The ATO will be releasing a second report on the taxation issues associated with Internet commerce in the near future. This second report builds on the earlier discussion report "Tax and the Internet" released in August 1997. Since then, substantial progress has been made, both domestically and internationally (particularly within the OECD), on gaining a better understanding of the nature of the risks to the revenue base and their current and potential magnitude. This progress will be reflected in the second report.

9. Early in 1999, the ATO is also planning to prepare a number of single-issue reports that provide an in-depth analysis of particular technical tax issues associated with electronic commerce.

Recommendation 7 (paragraph 5.42)

**The Auditor-General should examine, as part of any performance audit he undertakes into parcel and letter screening, compliance with Australian Customs importation guidelines and possible ways compliance can be improved.**

#### **Response by the Australian National Audit Office (ANAO)**

10. The ANAO has completed an audit of postal operations in the Australian Customs Service. The report on the audit (1998-99 No.15) was tabled on 24 November 1998. Through contact with the Committee during its inquiry, the ANAO was aware of the Committee's interest and the scope of the audit included the areas of parcel and letter screening and revenue leakage (see the ANAO response to recommendation 11, below) specified in the Committee's report.

#### **Response by the Australian Customs Service**

11. The Australian National Audit Office (ANAO) completed a Performance Audit of Customs Postal Operations in September 1998. While the audit did raise the possibility of revenue leakage in a general sense and sought to further clarify that aspect, it did not identify that revenue related fraud or evasion practices were a matter of particular or emerging concern. This is commented upon further in Customs' response to recommendation 11, below. It should be noted that this ANAO report relates to postal operations only.

12. Customs acknowledges that public awareness of formal entry thresholds and minimum duty collection thresholds might enable an experienced importer to potentially "structure" their purchase arrangements overseas to minimise any eventual duty impost. However, such practices are not necessarily illegal.

13. Over recent years, Customs has embarked upon an extensive x-ray equipment acquisition and upgrade program to supplement the physical examination of parcels, which has significantly increased the quantum of parcels and packets subjected to scrutiny. To date, no evidence has emerged to suggest that misdescription or undervaluation of the contents of parcels is any more or less prevalent in the postal environment than in any other area of commercial import transactions.

14. A high reliance is placed on experienced Customs staff to identify transactions that might represent a high revenue risk. To date no significant trends have emerged to generate concern.

Recommendation 8 (paragraph 5.43)

**Australian Customs and Australia Post should examine improvements that can be made to, and international progress with, bar coding and related item identification systems for imported goods and advise the Joint Committee of Public Accounts and Audit.**

### **Joint response by the Australian Customs Service and Australia Post**

15. Customs and Australia Post are agreed that priority should be given to the introduction of streamlined postal clearance procedures, particularly through the electronic reporting of postal consignments at item level. Customs coordinated the preparation of a paper, arguing options along these lines with Australia Post. This paper was presented in September 1998 to the World Customs Organisation (WCO), the Universal Postal Union (UPU), national postal authorities and the International Express Carriers Council.

16. The paper envisages a staged approach, initially focussing on business mail and commercial parcels, with postal authorities to report electronically to Customs. Bar coding of individual items and use of the World Wide Web will be evaluated and a pilot project is planned for early 1999 between US/UK/Australia. The project will be further refined at meetings of the WCO/UPU and also by the WCO's Information Management Sub-Committee in January 1999.

17. The UPU has agreed that electronic reporting and streamlined arrangements for postal consignments are desirable. However, given the wide disparity of development among its 189 members, it may take some time to have global progress - hence the likelihood that Customs and Australia Post will look to their major strategic partners in Asia, America and Europe to achieve early results.

18. Parallel with this matter Australian Customs, Australia Post and a representative of the express carriers will take part in a study of international consignments conveyed by the post and private operators. Customs has been asked to coordinate this work which is also taking place in 12 other countries. A report will be sent to the WCO soon.

19. The study is designed to highlight the differences between the post and carriers with a view to determining the most feasible way of identifying best practice for Customs treatment of these consignments. Important elements in this study will be data requirements and reporting methods. Results will be reflected in the Postal Annex to the revised WCO's international Kyoto Convention for the Harmonisation and Simplification of Customs Procedures.

Recommendation 11 (paragraph 5.139)

**The Auditor-General should review the level of revenue leakage from customs screening, and suggest ways in which screening methodology could be improved.**

### **Response by the ANAO**

20. This issue has been addressed as part of the recently completed ANAO audit of Australian Customs Service postal operations.

### **Response by Customs**

21. The ANAO performance audit of Customs postal operations focussed, amongst other things, on Customs screening procedures and the potential for revenue leakage. The ANAO Report concluded that:

“Our overall view is that, given the environmental constraints, ACS’ processes to screen incoming and outgoing mail are efficient and effective...”; and

“We consider that the control of postal operations by ACS is basically an exercise in risk management. It is important that ACS processes and our suggestions be viewed in that light.”

22. In relation to revenue screening, the ANAO also concluded:

“We consider that ACS works diligently to make the screening successful but that inherent weaknesses of the approach and the postal environment in which ACS has to operate mean that some revenue will not be collected.”

23. This statement essentially recognises the unique environment of postal traffic, where all items must be physically presented and manually inspected by Customs staff, primarily because of the limited adoption to date of electronic data reporting and computer risk profiling techniques into the postal environment.

24. Customs is seeking support at an international level, under the auspices of the World Customs Organisation and the Universal Postal Union, for the global adoption by postal authorities of electronic data reporting of postal consignments.

Recommendation 12 (paragraph 5.140)

**Australian Customs should proceed with stage three of the survey into low value imported goods and ensure that:**

- (a) the right to conduct the survey is determined according to Australian Public Service tender procedures; and**
- (b) a representative of the retailing industry is on the coordinating committee for the survey.**

### **Response by Customs**

25. Discussions have been held with the survey consultant. However, the survey is quite resource intensive and Customs is currently considering the most cost-effective options for achieving revenue and border control objectives within available resources.

Recommendation 14 (paragraph 5.142)

**Australian Customs must:**

- (a) establish an ongoing data series which records statistical information on the quantity, value and type of goods entering Australia under the screen free limit; and**
- (b) publish this data in the Australian Customs Service annual report.**

## Response by Customs

26. Customs is examining the means by which it might undertake further survey or effective data collection of this type within available resources.



Phil Bowen  
Acting Secretary

7 January 1999