

## Performance Audit Report No. 20 (2014-15)

# Administration of the Tariff Concession System

## Introduction

4.1 Chapter 4 discusses the Joint Committee of Public Accounts and Audit (JCPAA) review of the Australian National Audit Office (ANAO) Report No. 20 (2014-15) Administration of the Tariff Concession System. The chapter includes:

- an overview of the report, including the audit objective, scope and audit conclusion and audit recommendations
- Committee review
- Committee findings

## Report overview

4.2 Customs duty and Commonwealth taxes are imposed on goods when they are imported into Australia. The rate of duty payable in respect of goods is determined by the tariff classification of the product.<sup>1</sup> Imposing duty on imported goods is designed to influence the flow of trade by regulating the value of imported goods and protecting Australia's local economy and industry.<sup>2</sup>

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1 Australian National Audit Office (ANAO) Report No. 20 (2014-15), *Administration of the Tariff Concession System*, February 2015, p. 27.

2 ANAO, Audit Report No. 20 (2014-15), p. 27.

- 4.3 The Tariff Concession System (TCS), which was established in its current form in 1992, is aimed at helping industry become 'more internationally competitive'.<sup>3</sup> It also 'reduces costs to the general community by allowing duty-free entry for certain goods where there is no local industry that produces those goods'.<sup>4</sup>
- 4.4 To receive a concession from customs duty under the TCS, an imported good must be covered by a current Tariff Concession Order (TCO).<sup>5</sup>
- 4.5 The TCS is administered by the Australian Customs and Border Protection Service (Customs), however, the Department of Industry and Science (Industry) has responsibility for administering the policy framework within which the TCS is delivered.<sup>6</sup> Customs is responsible for assessing TCO applications, objections and revocations, as well as managing compliance with TCS requirements and providing assurance that importers applying TCOs are eligible to do so.<sup>7</sup>

### Audit objective and scope

- 4.6 The objective of the ANAO's audit was to assess Customs' administration of the TCS and the compliance strategies that have been implemented to mitigate the risks relating to the incorrect application of a TCO.<sup>8</sup>
- 4.7 The ANAO based its findings on an examination of four aspects of the TCS:
- the governance and oversight framework established to administer the TCS
  - the TCO assessment process
  - the processes and systems for ongoing management, review and eventual revocation of TCOs
  - the TCO compliance framework.<sup>9</sup>

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3 <http://www.customs.gov.au/webdata/resources/files/commer01.pdf> (accessed 13 May 2015).

4 <http://www.customs.gov.au/webdata/resources/files/commer01.pdf> (accessed 13 May 2015).

5 ANAO, Audit Report No. 20 (2014-15), p. 28.

6 ANAO, Audit Report No. 20 (2014-15), p. 35.

7 ANAO, Audit Report No. 20 (2014-15), p. 17.

8 ANAO, Audit Report No. 20 (2014-15), p. 16.

9 ANAO, Audit Report No. 20 (2014-15), pp. 37-38.

## Summary of audit outcomes

4.8 The then Auditor-General, Mr Ian McPhee AO PSM, summarised the key findings of the ANAO's performance audit of Customs' administration of the TCS:

... the mature administrative arrangements established over time have provided a generally sound basis for the assessment and management of tariff concession orders, or TCOs, including the processing of applications, objections, revocations as well as the management of TCOs that are in use.<sup>10</sup>

4.9 Despite this finding, the ANAO identified that those administrative arrangements could be improved by developing 'a communications strategy ... and more clearly documenting TCO application assessment activities'<sup>11</sup> concluding that Customs was not well placed to determine whether its compliance activities were effectively addressing the risks arising from TCO misuse.<sup>12</sup>

4.10 The ANAO's performance audit report was finalised as Customs had commenced implementing a number of significant reforms, including its amalgamation with the Department of Immigration and Border Protection (Immigration) and the restructure of its compliance function.<sup>13</sup> As the restructured arrangements are yet to be fully implemented, the ANAO concluded that it was not possible to determine the extent to which those changes would have an impact on compliance activity for the TCS.<sup>14</sup>

## ANAO Recommendations

4.11 Table 4.1 sets out the recommendations for ANAO Report No. 20 and Custom's response.

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10 Mr Ian McPhee AO PSM, Auditor-General (Retired), Australian National Audit Office (ANAO), *Committee Hansard*, 14 May 2015, p. 11.

11 Mr Ian McPhee AO PSM, ANAO, *Committee Hansard*, 14 May 2015, p. 11.

12 Mr Ian McPhee AO PSM, ANAO, *Committee Hansard*, 14 May 2015, p. 11.

13 ANAO, Audit Report No. 20 (2014-15), p. 22.

14 ANAO, Audit Report No. 20 (2014-15), p. 22.

Table 4.1 ANAO recommendations, Report No. 20 (2014–15)

1	<p>To build greater awareness and promote the Tariff Concession System, the ANAO recommends that the Australian Customs and Border Protection Service:</p> <ul style="list-style-type: none"> <li>(a) develops a Tariff Concession System communications strategy, in consultation with the Department of Industry, aimed at increasing system awareness, with a particular focus on local manufacturer engagement;</li> <li>(b) reviews the strategy periodically to inform the ongoing targeting and refinement of communication activities; and</li> <li>(c) reviews the appropriateness and accessibility of Tariff Concession System information that is currently made available to stakeholders.</li> </ul> <p><b>Customs' response:</b> <i>Agree.</i></p>
2	<p>To improve the transparency and accountability of the Tariff Concession Order decision-making process, the ANAO recommends that the Australian Customs and Border Protection Service strengthens its guidance to assessment officers and reinforces the importance of documenting key decisions.</p> <p><b>Customs response:</b> <i>Noted.</i></p>
3	<p>To better support the delivery and oversight of compliance activities directed at managing the risk of Tariff Concession Order misuse, the ANAO recommends that the Australian Customs and Border Protection Service:</p> <ul style="list-style-type: none"> <li>strengthens its approach to the management of compliance data to better inform its monitoring and reporting of compliance activities; and</li> <li>develops an appropriate set of performance indicators and regularly assesses its performance against these to determine the effectiveness of its compliance program.</li> </ul> <p><b>Customs' response:</b> <i>Agree.</i></p>

4.12 The ANAO explained that its recommendations were aimed at enhancing engagement with key stakeholders; providing greater assurance regarding the assessment and decision-making process; and improving the monitoring and reporting of compliance activities.<sup>15</sup>

4.13 Customs agreed to all three of the ANAO's recommendations.<sup>16</sup>

## Committee review

4.14 Representatives of the following agencies gave evidence at the Committee's public hearing on Thursday, 14 May 2015:

- Australian Customs and Border Protection; and
- Australian National Audit Office.

4.15 Throughout its inquiry, there were two areas of particular interest to the Committee:

- the progress of implementation of the ANAO's recommendations; and

<sup>15</sup> ANAO, Audit Report No. 20 (2014–15), p. 18.

<sup>16</sup> ANAO, Audit Report No. 20 (2014–15), pp. 48, 71, 106.

- how the organisational changes taking place in Customs would affect the administration of the TCS.

## Implementation of the audit report's recommendations

4.16 The ANAO's audit identified administrative arrangements supporting the TCS that could be strengthened and made recommendations accordingly. The ANAO's recommendations included the development of a communication strategy to improve awareness and stakeholder engagement and more clearly documenting assessment activities to providing greater integrity assurance of the TCO assessment and decision-making process.<sup>17</sup>

## Development of a communication strategy

4.17 In response to the Committee's questions concerning its progress in relation to the development of a communications strategy, representatives of Customs explained to the Committee that initial discussions had been held with Industry and options were being considered:

[T]he strategy will include strategies to reach manufacturers through direct appeals ... through partnering with stakeholders like state government agencies who have an interest in local manufacturing and through general advertising ... [T]he other proposal that we are looking at is expanding our existing website information.<sup>18</sup>

4.18 Customs gave further detail of their progress, advising that its next step in developing a communication strategy was to consult with state government and industry stakeholders.<sup>19</sup>

## Improving integrity assurance of the TCO process

4.19 Despite its finding that mature administrative arrangements, established over time, had provided a 'generally sound basis' for the administration of the TCS, the ANAO concluded that 'Customs was not well placed to determine whether its activities directed at managing compliance were effectively addressing the risks arising from TCO misuse' and recommended that more be done to strengthen the integrity of the decision-making process.<sup>20</sup>

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17 See: ANAO, Audit Report No. 20 (2014–15), pp. 23, 48, 71, 106.

18 Ms Anita Langford, Acting Assistant Secretary, Trade, Australian Customs and Border Protection Service (Customs), *Committee Hansard*, 14 May 2015, pp. 11–12.

19 Ms Anita Langford, Customs, *Committee Hansard*, 14 May 2015, p. 12.

20 Mr Ian McPhee AO PSM, ANAO, *Committee Hansard*, 14 May 2015, p. 11.

- 4.20 The Committee sought more detail of the resources dedicated to managing compliance data, monitoring and reporting. Customs explained that although 11 full time equivalent staff (FTE) currently manage TCO compliance, as part of its integration with Immigration, a process was underway to determine the level of resourcing needed to manage TCO compliance post 1 July 2015.<sup>21</sup> In addition, Customs outlined that work was underway to improve its compliance function:
- The service is implementing two initiatives which specifically relate to an enhanced ability to identify and stop non-compliance claims for Tariff Concessions. Two analytics models are currently being developed which will inform information on [TCOs].<sup>22</sup>
- 4.21 To deliver these initiatives, Customs has received funding for 16.66 FTE in the current financial year, and further funding to support a maximum of 25 FTE in the 2015-16 financial year.<sup>23</sup>
- 4.22 Representatives of the agency also explained that a Revenue and Trade Crime Task Force (Task Force) was established in September 2014 ‘to develop and deliver a number of specific enhancements and efficiency improvements to processes and systems to better address complex revenue evasion and deliver additional revenue to Government’.<sup>24</sup> In addition to its role in managing TCO misuse and identifying improvements, the Task Force was also ‘undertaking a project to develop key performance indicators through a comprehensive process review and improvement programme across all revenue and targeting processes’.<sup>25</sup>
- 4.23 In its audit report, the ANAO commented on the various information technology systems used to administer the TCS. It noted that Customs ‘recognised that its current IT operating environment is characterised by duplication of effort and the inefficient use of resources’ and had ‘embarked on a four-year business alignment strategy that is planned to deliver more integrated, responsive information and services’.<sup>26</sup>
- 4.24 In response to questions seeking more detail on these changes, Customs further informed the Committee that a project was underway to review the number of systems used and how they are used with a view to,

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21 Australian Customs and Border Protection Service (Customs), *Submission 3*, p. 1.

22 Customs, *Submission 3*, p. 4. See also: Mr Kingsley Woodford-Smith, *Committee Hansard*, 14 May 2015, p. 15.

23 Customs, *Submission 3*, p. 4.

24 Customs, *Submission 3*, p. 4.

25 Customs, *Submission 3*, p. 1.

26 ANAO, *Audit Report No. 20 (2014-15)*, p. 52.

through the integration with Immigration, creating efficiencies and returning to one system:<sup>27</sup>

Most business ICT systems from the Department and the Service [(Customs)] will continue to operate in the new Department as they provide support to specific lines of business (i.e. Cargo Management or Visa Processing). As part of the Portfolio's Reform Programme there is a suite of initiatives, including investment in Intelligence ICT capabilities, to improve support to officers in the Border Force.

...

The service is working to develop a future systems landscape post the consolidation of our organisations that will provide guidance to the lines of business on the systems that we will invest in, maintain or retire. New business systems will be developed to meet new business requirements where appropriate.<sup>28</sup>

## Organisational changes

- 4.25 In its audit report, the ANAO noted that Customs was in the process of significant organisational reform, including its amalgamation with Immigration and the restructure of its compliance function.<sup>29</sup> Noting this, the ANAO identified that although it was not possible to determine, at the conclusion of the audit, the extent to which the new arrangements would affect TCS compliance activity, '[t]here would ... be merit in Customs reflecting on the findings of [its] report when implementing revised compliance arrangements as a part of its reform agenda.'<sup>30</sup>
- 4.26 Noting its broad and varied border responsibilities, the Committee sought to understand how changes to Customs' organisational structure would impact the priority attributed to TCS compliance work.
- 4.27 In response to these questions, Customs explained that although the changes occurring as a result of integration made it difficult to specify how priorities would be determined going forward and the particular priority that would be given to the TCS, it was expected that:
- ... a large part of the Border Force, Strategic Border Command Division, [would have] a significant involvement in terms of ... management around the scheme [TCS] ... and we are potentially looking at around 1500 people dedicated to a number of different

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27 Mr Kingsley Woodford-Smith, Customs, *Committee Hansard*, 14 May 2015, p. 15.

28 Customs, *Submission 3*, p. 5.

29 ANAO, Audit Report No. 20 (2014-15), p. 22.

30 ANAO, Audit Report No. 20 (2014-15), p. 22.

priorities. So one officer can be looking at all of those priorities and more broadly across the other kinds of activities that we might be engaged in. A large part of ... [Customs] is in one form or another involved. Whether it be the intelligence side, creating profiles or alerts or activities at the airport in cargo terminals, it is the organisation that is focussed on that.<sup>31</sup>

- 4.28 Customs also described how the structural changes to its compliance function would enable it to centralise the management of risk across the integrated organisation.<sup>32</sup>

## Committee comment

- 4.29 The Committee acknowledges that Customs is in the process of a significant organisational restructure. This restructure has included amalgamation with the Department of Immigration and Border Protection (Immigration), and from 1 July 2015, the creation of a single border control and enforcement entity: the Australian Border Force (ABF). The ABF will be responsible for all aspects of border enforcement action, including TCO compliance. Following the establishment of ABF, Customs will be abolished as a statutory agency. As a result, the Committee takes the view that the ANAO's performance audit should inform Immigration and the ABF as the significant changes being undertaken continue to be implemented.
- 4.30 The Committee considers that the agency is taking reasonable action to begin implementing the ANAO's recommendations. The Committee encourages Customs to ensure the ANAO's recommendations are reflected upon and influence the design of its compliance function in the new integrated agency.

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### Recommendation 7

- 4.31 **The Committee recommends that the Department of Immigration and Border Protection report back to the Joint Committee of Public Accounts and Audit, within six months of the tabling of this report, on its continued progress implementing the Australian National Audit Office (ANAO) recommendations in Report No. 20 (2014–15).**

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31 Mr Kingsley Woodford-Smith, Customs, *Committee Hansard*, 14 May 2015, p. 15.

32 Mr Kingsley Woodford-Smith, Customs, *Committee Hansard*, 14 May 2015, pp. 16–17. For more information on the Organisation Structure, see:

<http://www.immi.gov.au/About/Documents/portfolio-structure-chart-02032015.pdf>



- 4.32 The Committee considers that there is scope for a broader cross-agency audit of the TCS, beyond its administration, to include aspects such as the policy framework and the TCO objection process. This audit could be undertaken, as appropriate, 12 months following the commencement of the operation of the ABF.

### **Recommendation 8**

- 4.33 **The Committee recommends that the Australian National Audit Office (ANAO) consider undertaking a cross-agency audit (Department of Industry and Science, and the Department of Immigration and Border Protection) of the Tariff Concession System at least 12 months following the finalisation of the Department of Immigration and Border Protection's organisational restructuring and the commencement of the Australian Border Force.**

**Dr Andrew Southcott MP**

**Chair**

**Date: 25 June 2015**

