

Chapter

8

Canada Customs and Revenue Agency
Managing the Risks of Non-Compliance
for Commercial Shipments Entering
Canada

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies, and practices of the Office of the Auditor General of Canada. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants.

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Canada Customs and Revenue Agency

Managing the Risks of Non-Compliance for Commercial Shipments Entering Canada

Main Points

8.1 The Canada Customs and Revenue Agency (CCRA) needs to improve its enforcement activities for commercial shipments, both how it identifies high-risk shipments and how it analyzes the results of its activities. While it has worked hard over the past decade to improve its enforcement activities, it still faces many challenges. The Agency is using a risk management approach to determine which shipments present the greatest risk to Canadian society so it can focus on those shipments and let the others pass through quickly.

8.2 The Agency has tried to improve its compliance verification activities by implementing a new approach to ensuring that importers are complying with Customs trade laws and regulations. However, after six years and a lot of effort, it has made little headway in assessing how well importers are following the rules. A revised approach is promising but has yet to be proved.

8.3 The CCRA has made it easier for importers to bring legitimate goods into Canada and has provided them with several processing options. Importers who are pre-approved and those who send the required information to the Agency before the shipment arrives at the border experience little delay of their shipments.

Background and other observations

8.4 As a trading nation, the health of Canada's economy depends on imports and exports. In the past eight years, the volume of commercial shipments entering Canada has increased dramatically, from 7 million a year to over 10 million today. The increase in volume is partly because of the North American Free Trade Agreement.

8.5 The objective of the Customs program is to protect Canadian society and promote Canada's competitiveness. Until this year, the Agency has not provided Parliament with enough information to show how well it is achieving these objectives. The new performance report required by the Agency's legislation provides more information, but the Agency still needs to develop detailed performance measures, set expectations, and evaluate actual performance against expectations.

8.6 The Customs Action Plan is the CCRA's plan to change the Customs program in the near future. In our view, it includes many good ideas to help the CCRA achieve its objectives. We are concerned, however, that the Agency is going ahead with the Customs Self Assessment initiative before its compliance verification regime is solidly established.

The Agency has responded. The Agency agrees with our recommendations and in its responses has indicated the actions it will take to address them.

Introduction

8.7 The Customs program is an important part of the Canada Customs and Revenue Agency (CCRA). The Agency's 2000–01 *Report on Plans and Priorities* says the objectives of the Customs program are “to protect Canadian society and promote the competitiveness of Canada through the facilitation of international trade and tourism balanced with responsible border management.” Responsible border management means making it easy for legitimate goods and admissible people to enter Canada while keeping out illegal or restricted goods and inadmissible people. Customs officers have to deal with this difficult balancing act every day.

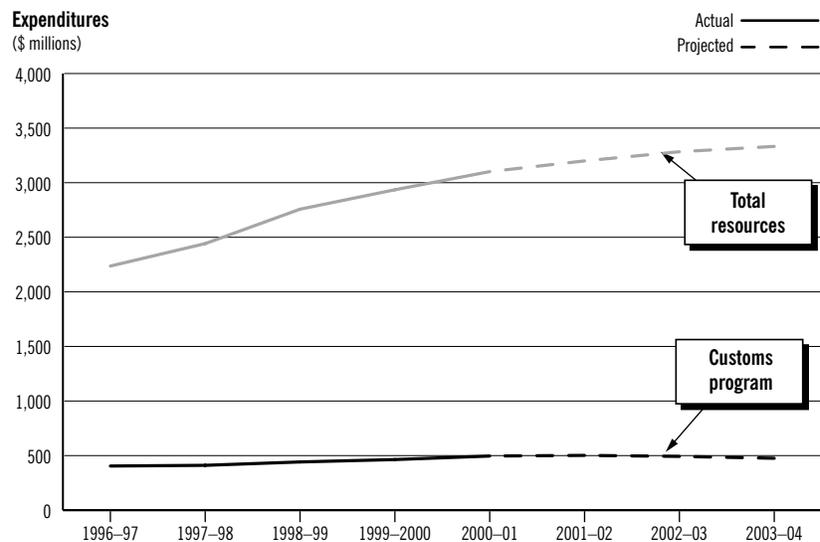
8.8 The CCRA spends about 16 percent of its resources on the Customs program. The other 84 percent is spent on administering its other business lines—tax services, benefit programs and other services, appeals, and corporate management and direction (Exhibit 8.1). About 7,200 employees work in the Customs program.

8.9 The Agency's Assistant Commissioner, Customs is responsible for the following:

- establishing policies for the Customs program;
- developing programs to deliver those policies;
- providing advice on the programs to employees; and
- building strategic relationships with clients and stakeholders.

Six regional assistant commissioners are responsible for delivering the Customs program and all other CCRA programs in their regions.

Exhibit 8.1 The Agency's resources for its Customs program and other business lines*



* The Agency's other business lines are tax services, benefit programs and other services, appeals, and corporate management and direction.

Source: Canada Customs and Revenue Agency, performance reports and 2001–02 *Report on Plans and Priorities*

8.10 Five main statutes govern what CCRA officials do in the Customs program: the *Customs Act*, the *Customs Tariff*, the *Special Import Measures Act*, the *Excise Act*, and the *Excise Tax Act*. The Agency also administers parts of many other laws for other government entities, such as the Canadian Food Inspection Agency, Environment Canada, Health Canada, and Statistics Canada (see the Appendix).

A changing environment

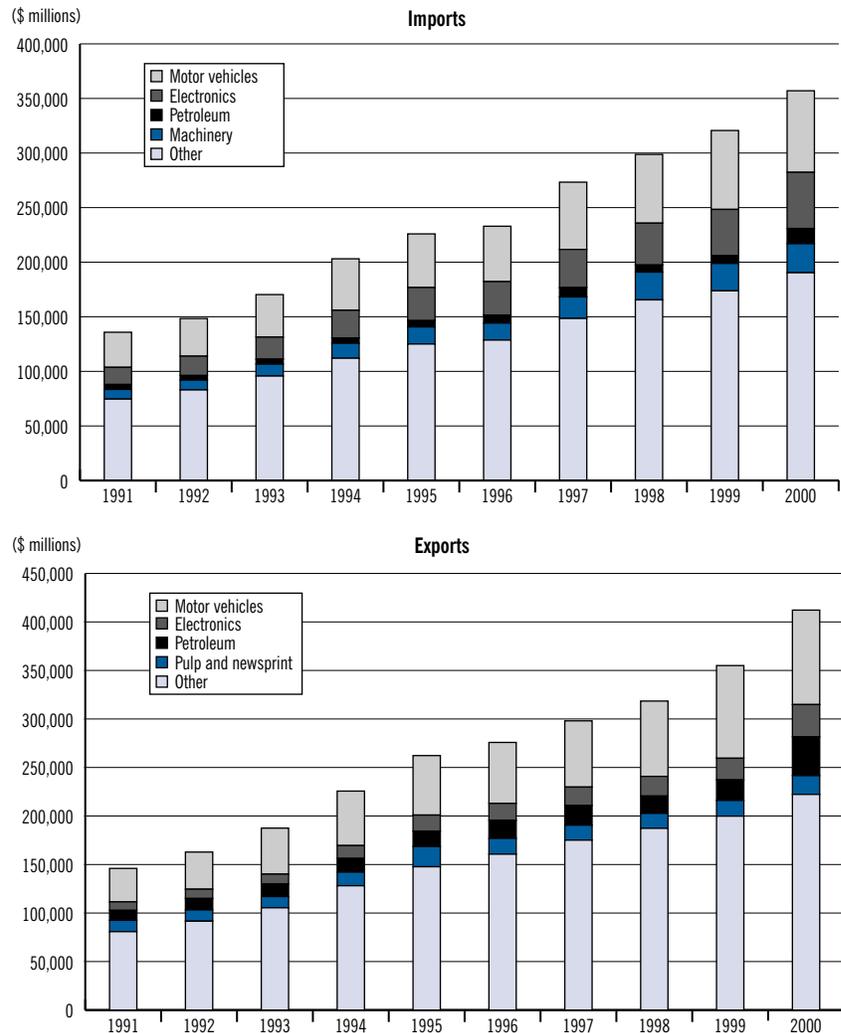
8.11 Globalization of trade. Canada is a trading nation, and the health of our economy depends on imports and exports (Exhibit 8.2). In 2000, imports totalled \$357 billion and exports \$412 billion; exports represent 39 percent of Canada's gross domestic product. Companies have found faster ways to move their goods, increased their capabilities to exchange information, and looked for ways to be more competitive. Canadian governments have worked to make it faster and easier to bring goods into Canada. These trends are likely to continue.

8.12 In the past eight years, the CCRA has faced a dramatic increase in the volume of commercial shipments entering Canada, from 7 million a year to over 10 million today. The increase in volume is partly the result of the free trade agreements Canada has negotiated with its trading partners, and especially the North American Free Trade Agreement. The agreements give Canada greater and more secure access to foreign markets. They have also reduced customs duties or even eliminated them so that the government is collecting less revenue from customs duties, down from over \$4.5 billion in 1989–90 to just over \$2 billion in 1999–2000. In the next few years, we can anticipate more free trade agreements.

8.13 Information technology advances. Changes in technology are also affecting the way the CCRA conducts business. Increasingly, the Agency and many of its clients exchange and process information electronically. The CCRA also uses the Internet to keep its clients up-to-date on the import process. These and other efforts are aimed at increasing productivity for both the CCRA and its clients. The CCRA also uses new technologies in its enforcement activities.

8.14 Changes to laws. The laws and regulations that the CCRA administers in the Customs program are continually changing. For example, the definition of pornography has changed over the years through amendments to legislation and by court decisions. The list of endangered species changes as scientists learn about new ones. New threats to Canadians' health can occur at any time, and new regulations are drafted to deal with them. The Agency responds to these changes with written directives and training, where necessary, to keep its employees up-to-date.

Exhibit 8.2 Major Canadian imports and exports in the last 10 years



Source: Statistics Canada

Importing goods into Canada

8.15 There are about 160,000 commercial importers doing business in Canada. Most of them (about 150,000) together account for around 10 percent of the total value of goods imported each year. Of the rest, the thousand largest importers account for about 54 percent of the total import value. This means that the CCRA needs processes to handle both large companies that import thousands of shipments a year and smaller importers of only occasional shipments.

8.16 Many importers need a quick process at the border because they no longer maintain large inventories; a delay in receiving goods could shut down an assembly line. The CCRA thus has to process thousands of transactions rapidly while finding the few that need to be stopped.

8.17 Under the *Customs Act*, importers must present certain information to the CCRA about the goods they are importing. Customs officers review this information and decide whether they want to inspect the shipment. If they don't, the goods are released immediately. If they do, the goods are released after they pass the inspection. Goods cannot enter the Canadian economy unless a Customs officer releases them. This provision is being amended so that when an approved importer receives goods that qualify, they are considered released for customs purposes.

8.18 Most importers and brokers have registered with the CCRA for delayed payment privileges. This means that the CCRA will release their goods on arrival but they must send the Agency a full accounting of the shipment, usually within five days, and pay the duties and taxes by the end of the month. Those who have not registered must account for and pay the duties and taxes before the Agency will release their goods.

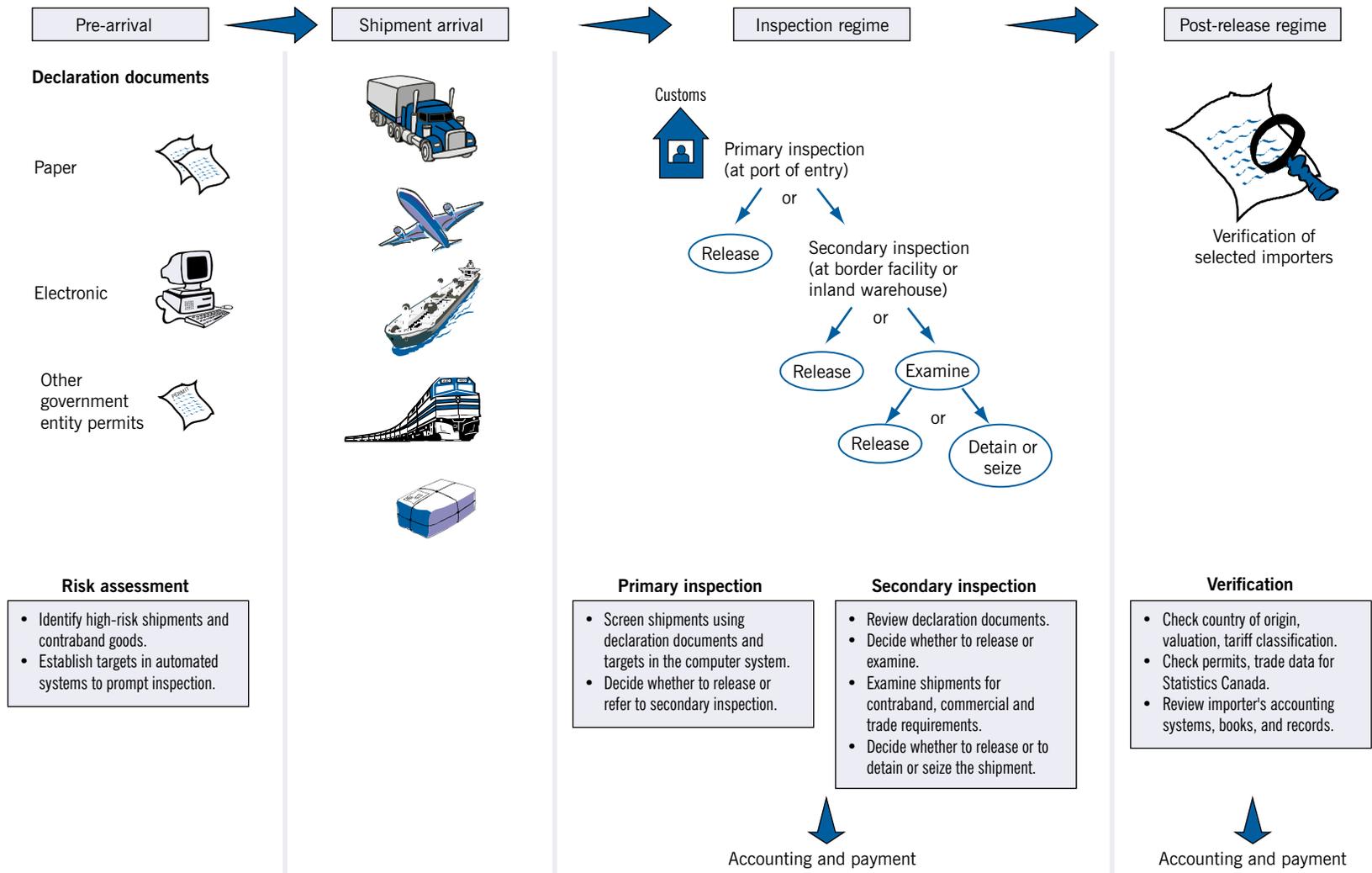
8.19 After releasing the goods, the CCRA checks a sample of importers to verify that they have properly reported the goods and paid all taxes and duties (these checks are “compliance verifications”). Exhibit 8.3 describes the process for importing commercial goods into Canada.

Focus of the audit

8.20 Our audit examined how the Agency manages the risks of non-compliance with Canadian laws and Customs regulations that may exist in commercial shipments entering Canada at legal ports of entry. These include 147 land border crossings between Canada and the United States, 13 major airports, and 3 major seaports. We focussed on how the Agency assesses those risks and how it works to ensure the speedy release of legitimate goods while keeping out illegal goods. We also examined how the Agency makes sure that importers are following the rules. We last audited this area of its operations in 1994. At that time, we focussed on the assessment of customs duties. In 2000, we examined the way the CCRA manages the risks that travellers present; we reported the results of that audit in Chapter 5 of our 2000 Report.

8.21 We did not examine the activities of other agencies such as the Royal Canadian Mounted Police that also have responsibility for protecting the Canadian border against the entry of illegal and smuggled goods. Nor did we examine the CCRA's enforcement under the Canadian Drug Strategy, the subject of another audit (Chapter 11 of this Report). We did not examine the work done by the Agency to ensure that exported shipments comply with applicable laws and regulations. For further details on our audit, see About the Audit at the end of this chapter.

Exhibit 8.3 Process for importing commercial goods into Canada



Source: Canada Customs and Revenue Agency

Observations and Recommendations

Strategic direction

The 1990 Blueprint set a strategic direction for the decade

8.22 In March 1990, Customs issued *Customs 2000: A Blueprint for the Future*. The paper set out Customs' vision for moving into the year 2000, re-examined how Customs conducted business, and proposed an ambitious approach to managing the growing demand for its services.

8.23 For commercial operations, the Blueprint included the following objectives:

- strengthening enforcement activities aimed at protecting society;
- changing the approach for verifying that importers are following the rules; and
- streamlining the processing of commercial goods.

8.24 We looked at what the CCRA has done to implement these objectives. In general, we found that it has succeeded in making it easier for importers to bring legitimate goods into Canada and has worked hard to improve its enforcement activities. But it has had great difficulty implementing its Blueprint approach to verifying importers' compliance.

The Customs Action Plan and the Compliance Improvement Plan

8.25 By 1998, the CCRA recognized that even though it had not accomplished everything it set out to do in the Blueprint, changes in its operating environment meant it needed to rethink its vision. So it discussed several proposals with interested parties including employees, importers, brokers, and tourism associations. In April 2000 it released *Investing in the Future: The Customs Action Plan 2000–2004*. The plan sets out a new direction for the Customs program over five years.

8.26 In our view, the Action Plan's focus on risk management is sound. If implemented properly, the plan should help the CCRA achieve the overall goals of the Customs program.

8.27 In September 2000, the Agency issued the Compliance Improvement Plan for 2000–01. The plan began the process of adopting a systematic method of managing the Customs program based on risk. It was supported by a border management plan, a post-release verification plan, and a client services plan. The Agency recognized that the Compliance Improvement Plan would take a number of years to reach its full potential. In particular, there are a number of gaps in the information needed to develop a comprehensive plan and the CCRA is working to fill them in the first years of the plan. In our view, the plan is an important step forward for the Agency because it integrates all aspects of compliance in the Customs program.

Enforcement activities

Improvements are being made but challenges remain

8.28 The 1990 Blueprint stressed that Customs had to strengthen its enforcement activities to fulfil its responsibility for protecting Canadian society. Every shipment that crosses the border presents a risk for CCRA—

the possibility of drugs, pornography, weapons, endangered species, hazardous waste, and many others (Exhibit 8.4). Inspecting every shipment is neither desirable nor practical. The Agency is using a risk management approach to determine which shipments present the greatest risk so it can focus on those shipments and let the others pass through quickly. Finding these high-risk shipments is difficult. However, with the right strategies, techniques, and resources, the Agency should expect to have greater success.

Exhibit 8.4 Every shipment that crosses the border presents a risk

Illegal goods (contraband) that will enter Canada:

- cocaine, heroin, ecstasy, cannabis, and others;
- alcohol and tobacco;
- pornography, especially child pornography;
- weapons and firearms.

Inadmissible people who will enter Canada:

- illegal immigrants in containers;
- drivers with criminal records;
- missing children travelling with commercial drivers.

Restricted goods or goods needing permits that will enter Canada:

- endangered species;
- textiles, milk protein, and prescription drugs;
- dumped goods;
- hazardous waste;
- contaminated goods, like those with foot and mouth disease.

Importers, carriers, and drivers that will make incorrect declarations (innocently or intentionally):

- incorrect description of goods, including country of origin, quantities, value, end-use, and tariff classification (important for targeting);
 - incorrect tariff classification, especially for machine release;
 - incorrect calculation of duties.
-

8.29 The CCRA uses several techniques to identify high-risk shipments:

- In 1996–97 it prepared a national assessment of risks at ports of entry. The assessment was based on several factors that affect risk at each port, such as the volume of traffic, nearness to large cities, the history of seizures at the port, and knowledge of criminal organizations operating in the area. Each port was rated against these factors and ranked with the other ports by level of risk. The Agency is now updating that assessment.
- In 1998 it produced a national Contraband Risk Assessment. The assessment looked at the modes of transportation (highway, air, marine, and rail) and ranked them according to their relative risk of contraband.

- The CCRA uses intelligence gathered from other Canadian and international enforcement agencies to detect links between importers and criminal organizations and set “look-outs” to help officers keep illegal goods from entering Canada.
- Its computers contain details about past seizures and other enforcement actions.

Further improvements are needed to identify high-risk shipments

8.30 Officials at headquarters and in the regions set targets in the computer system that flag high-risk shipments. We found some weaknesses in the targeting process:

- Determining whom or what to target is not an efficient process because officers have to refer to several computer systems. Even then, the officer may be lacking some information that would help with the task, particularly information about the results of examinations and the results of compliance verifications. Furthermore, ACROSS, the computer system used for targeting, is not user-friendly.
- The computer system can target specific importers, but it is difficult to target specific goods directly. To target specific goods, officers must determine which importers are likely to import those goods and then target those importers. This is becoming a lesser concern over time as the Agency encourages or requires importers to provide more information that will allow it to target specific goods.
- Studies have shown that contraband is more likely to be brought into Canada by a truck driver than an importer. The Agency uses its computer system to target high-risk importers, but it relies on manual systems and procedures to help identify high-risk truck drivers. It is evaluating the results of a recent pilot project that uses the computer system for targeting high-risk drivers.
- The effective use of targets relies heavily on the assumption that importers accurately describe the goods they are bringing into Canada. An accurate description of a shipment is important in making a decision to release it. While the Agency believes that most importers voluntarily comply with this requirement, it has few checks in place to ensure that they do at the time the goods are imported.

Inspection regime is stable and flexible

8.31 Identifying high-risk shipments is only the first step in the enforcement process. The next step is having an inspection regime that is effective at examining the shipments (Exhibit 8.3). The CCRA has three main triggers for an examination of commercial goods: targets in the computer system, random inspections generated by the system, and referrals by an officer.

8.32 The CCRA uses a primary inspection line, where officers screen shipments quickly. If the documentation is in order and the officer is satisfied that the shipment is a low risk, it is released without delay. If there are problems in the documentation or other indications that the shipment should be examined, the officer refers it to a secondary inspection team. This team of officers has more time to clear up problems in the documentation and decide whether to examine the shipment before releasing it.

8.33 The CCRA also uses other techniques to supplement the primary and secondary inspections:

- The Agency organizes blitzes, highly focussed examinations done over a short period of time. They usually involve several officers, so more examinations are done. Blitzes are especially useful for their deterrent effect. They also provide important information for setting new targets.
- The CCRA has introduced flexible response teams to improve enforcement, particularly for drugs. These teams are specially trained, and they move around within a port and between ports to help other officers.

The Agency also has specialized equipment such as X-ray systems and ionscans that help officers examine shipments more effectively.

8.34 In our view, the CCRA's inspection regime is stable and flexible and well understood by employees and importers. However, we are concerned about the situation at the Ambassador Bridge in Windsor. The bridge is the busiest land border crossing in the country, handling 6,000 to 7,000 trucks every weekday. The facility for examining shipments is about two kilometres from the bridge, through city streets. Officers at the bridge refer about a third of the trucks to the examination facility, in most cases so the paperwork can be completed to release the shipment. Unless officers escort a truck from the bridge to the facility, which rarely happens, the Agency cannot ensure that the truck goes directly to the facility or that no one tampers with the shipment. Some of the unescorted shipments may be high-risk. Management has advised us that to immediately address this concern it will issue a directive to all officers that will include guidelines on defining high-risk shipments, in order for officers to determine which shipments are to be escorted. The directive will also contain policies and procedures on escorting these shipments (Exhibit 8.5).

The border management plan sets goals and priorities for examinations

8.35 In 2000, CCRA produced its first national border management plan as part of the Compliance Improvement Plan for 2000–01. The plan laid out the expected number of examinations to be done in each region and set the examination priorities. The border management plan for 2001–02 reports the results of the first year and sets examination goals and priorities for the current year. This plan is an important step in further developing the CCRA's risk management approach. But the plan needs to be improved.

8.36 **The plan is based on incomplete data.** The information that the CCRA has been collecting on its enforcement efforts is difficult to retrieve in a format useful for analysis. Customs officers report the results of most examinations in one computer system and seizures in another. Other examinations are reported in a manual system. It is time-consuming and sometimes impossible to gather all this information and use it to develop a comprehensive plan.

8.37 **Balancing an optimum examination rate with resource constraints.** Examinations are an important part of the CCRA's goal to protect Canadian society. The number of examinations done varies among ports, from under

0.5 percent of commercial shipments in some to over 3 percent in others. The examination rate depends on such factors as the type of traffic at the port, the risks that have been identified, the ports' facilities, and the number of officers available to do the examinations. We expected to find an optimum examination rate for each port, based on its risks, and a planned examination rate that would balance the optimum rate with the available resources. This would also give managers an opportunity to compare the planned rate with the optimum rate and adjust resources if possible. We found instead that the planned examination rate was based on the resources and facilities available and no optimum rate was set.

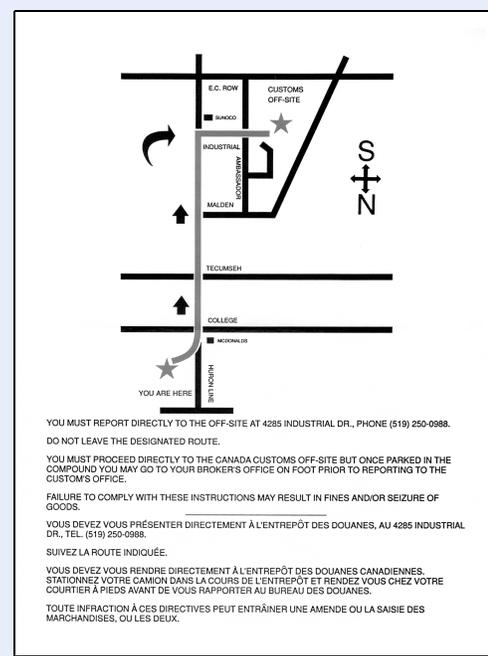
8.38 Random examinations are important. The CCRA's computers use statistical models to select shipments at random for examination. However, these models have not been reviewed for some time. The border management plan recommended that 13,800 random examinations be carried out in 2000–01. We found that 11,361 were actually done—a shortfall of 18 percent. Customs officers told us they pay less attention to conducting random examinations than targeted examinations if other operational priorities intervene. They believe that targeted examinations address a higher risk and therefore represent a greater chance of finding something. While this should be true, random examinations are especially important for deterrence. They help deter importers and others from trying to smuggle illegal or restricted goods across the border. They can also provide CCRA with some assurance about overall compliance levels and with new information for better targeting.

Exhibit 8.5 The Windsor examination facility is two kilometres from the Ambassador Bridge

At the Ambassador Bridge in Windsor, drivers are given instructions at the primary inspection booth on how to reach the examination facility. The Agency relies on the “honour system” for drivers to report there.

The current situation means the Agency cannot ensure that the truck goes directly to the facility or that no one tampers with the shipment between the primary inspection booth and the examination facility, unless the truck is escorted to the facility, which rarely happens.

Source: Canada Customs and Revenue Agency



Examination results do not show whether the Agency's approach to risk management is working

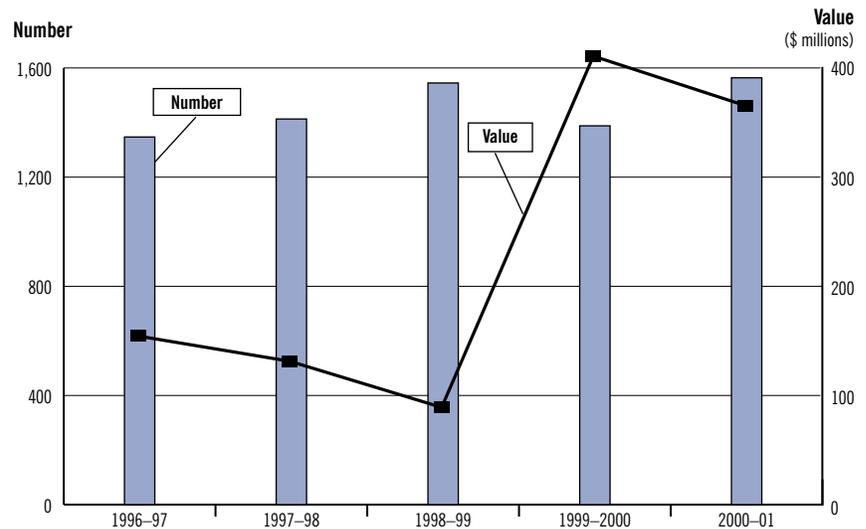
8.39 The results of examinations and enforcement actions are important indicators of whether the approach to risk management is working. They also indicate whether the CCRA is protecting Canadians effectively and whether people and goods crossing the border are complying with Canadian laws.

8.40 When we reviewed the data on examinations, we looked for information that would show us the following:

- examination rates, including the hit rate (number of seizures in the examinations done);
- the number of seizures and the quantity of goods seized;
- whether the new processes to speed up low-risk shipments made more resources available to examine high-risk shipments;
- whether the Agency was doing more (or more in-depth) examinations of high-risk shipments than in previous years;
- whether improved targeting activities were leading to more enforcement actions; and
- a measure of overall compliance levels at the border.

8.41 We found that the Agency has information on seizures (Exhibit 8.6), and it has reported the value of seizures to Parliament for many years. It has used this information to help identify high-risk shipments.

Exhibit 8.6 Number and value of commercial seizures in the last five years



Source: Canada Customs and Revenue Agency

8.42 In many other respects, what our review showed was disappointing:

- The CCRA has information for only the last three years on the number of examinations done, the hit rate in those examinations, and the origin of the referral for each examination. And this information may not be accurate, because it is collected in several systems that are not integrated. This limited amount of information makes it difficult to assess enforcement efforts over time and set proper enforcement goals.
- The CCRA does not know whether more resources are available to examine high-risk shipments, because it does not collect that type of information. We think it should, because it has frequently said that this would be one of the results of its efforts to speed up the processing of low-risk shipments.
- The Agency does not know if it is doing more (or more in-depth) examinations of high-risk shipments than in previous years. Nor does it know whether its improved targeting activities have led to more enforcement actions. Again, the Agency does not collect that type of information.
- The CCRA says that based on its “stint” examinations, compliance at the border is between 87 percent and 98 percent. The rate varies depending on the mode of transport and the year the stint was done. Stints are random examinations at selected ports for the purpose of measuring compliance at the border. They examine the release documentation on a shipment to see whether it is complete and properly describes the shipment, and whether drugs or other contraband were found in the shipment. However, the results of the stints are not tied in with compliance verification results to provide a more complete picture of compliance levels.

8.43 Recommendation. The Agency should do the following:

- improve the efficiency of the targeting process by ensuring that targeters have easy access to all relevant information;
- improve the effectiveness of the targeting process by more systematically monitoring release documents to ensure that they properly describe the goods being imported into Canada;
- conduct random inspections more faithfully and analyze their results more carefully; and
- collect the information needed to assess the effectiveness of its risk management approach, including information to show whether targeting activities are identifying high-risk shipments, resources are being used to examine high-risk shipments, and resources are being allocated to achieve an optimum examination rate.

Agency’s response. The Agency will continue to improve the accessibility of targeting information and is currently exploring options to improve the targeting process by enhancing its computer systems. Options under consideration include enhancing the targeting capability at the Primary Inspection Line (PIL) and creating new interfaces between systems. Implementation will be subject to the availability of systems and financial resources.

The Agency continues to make efforts to improve the monitoring of release documents to ensure that they properly describe the goods being imported. As part of the Customs Action Plan, increased reporting requirements for commercial shipments will be introduced to improve our targeting capability. The Administrative Monetary Penalty System (AMPS), another Customs Action Plan initiative, will support the compliance monitoring of release documents by providing the framework for issuing warnings and penalties where cases of non-compliance are detected. The first phase of these initiatives will be implemented in the spring of 2002, subject to the passage of the necessary legal framework.

The Agency will make efforts to ensure that random inspections are conducted more faithfully and will continue to improve the analysis of results as part of the Border Management Plan.

The Agency will explore opportunities to improve the type of information available to determine the effectiveness of our risk-management approach.

Verifying importer compliance

The CCRA had great difficulty implementing its approach

8.44 Compliance verification, making sure importers are following Customs trade laws and regulations and paying the right customs duties, is a key activity in the Customs program. Over the years, changes in trade agreements and trading patterns have shifted the focus of compliance verification. Today, the Agency focusses more on making sure importers have followed the rules in the agreements than on collecting revenue: the agreements often reduce customs duties or even eliminate them. The Agency also has to make sure it collects accurate trade data, which the government needs to ensure that Canada is complying with the terms of its trade agreements and to negotiate new agreements.

8.45 To help speed up processing at the border, the CCRA usually does compliance verification after goods have been brought into the country. Some aspects of compliance verification are done at the border, however—examining labels and markings on goods, for example. Verification officers use the release and accounting documents that the importer has filed with the CCRA. In some compliance verifications, the CCRA will also assess the importer's accounting systems to see if they can report the imported goods accurately to the Agency.

8.46 The main objective of the verification work is to get answers to some or all of the following questions:

- Is the tariff classification correct?
- Has the right tariff preference been claimed?
- Have the goods been properly valued?
- Are the quantities correct?
- Is the country of origin correct?
- Have all the required permits to import the goods been received?
- Have the statistical requirements for trade data been met?

8.47 In the 1990 Blueprint, the CCRA said that it needed to change its approach to compliance verification and, since 1993, it has made major changes. These changes were made while the organization itself was changing (Exhibit 8.7). Before 1993, Customs' focus was on verifying individual transactions or shipments. The new approach was designed to provide a better picture of overall levels of compliance. For some importers, this involved a comprehensive, periodic verification of the importer's accounting systems and a review of a sample of the importer's transactions to ensure that they were reported correctly to Customs. In other cases, such as single program reviews, this involved reviewing specific issues for a number of importers.

8.48 While the Agency focussed much of its attention on implementing its periodic verification approach, transactional reviews continued until 1997 and single program reviews became increasingly important. They identified areas of non-compliance by the importers reviewed. However, the results of those reviews were not analyzed on a national basis to provide a picture of overall compliance or identify areas potentially at high risk of non-compliance. Furthermore, verification officers told us they did not receive appropriate guidance on how to assess risks in these reviews and how many reviews they should do. More attention has been paid to single program reviews recently. In July 2001, the Agency started to incorporate single program reviews in its 2001–02 post-release verification plan, and it reflected the expected results of all verification activities in the accountability agreements of responsible managers and directors.

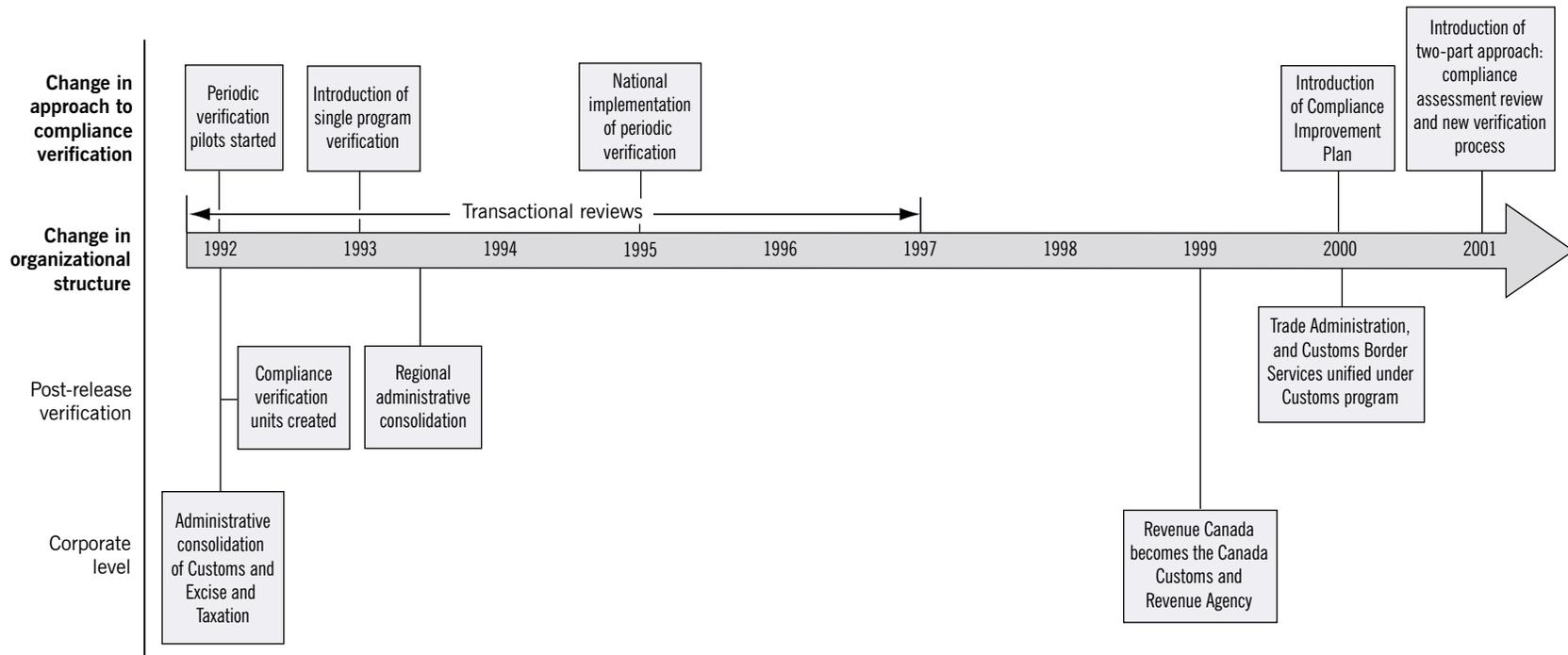
Periodic verification achieved little at great cost

8.49 In our 1994 Report we commented on the periodic verification approach. We were encouraged by the forward thinking it represented and by the results of the pilot projects. We noted that Customs had set ambitious goals for the approach, but that it did not have a detailed implementation plan to guide it in achieving those goals. In our 1997 follow-up, we noted that Customs had not made as much progress as it had expected.

8.50 This year we found that progress had continued to be slow. By the end of the first phase of the implementation process in 1998, Customs had completed 53 of the planned 187 verifications. The Agency's internal auditors reported that by the end of 1999, 135 verifications had been completed. Since we initiated this audit, the Agency has worked hard to complete verifications. By August 2001, it had completed 374 verifications and 367 were in progress.

8.51 The CCRA assessed the 53 verifications completed in phase I of the program. The major objective was to determine how compliant importers were in providing correct trade data. It reported high error rates in classification (29 percent), origin (18 percent), and valuation (15 percent). In some sectors the error rates were over 50 percent. More significant, 48 of 53 companies verified had made errors in classification. The Agency has not analyzed the results of completed verifications since 1998 and cannot show whether compliance has improved or deteriorated since then.

Exhibit 8.7 Change in Customs' approach to verifying that importers follow the rules

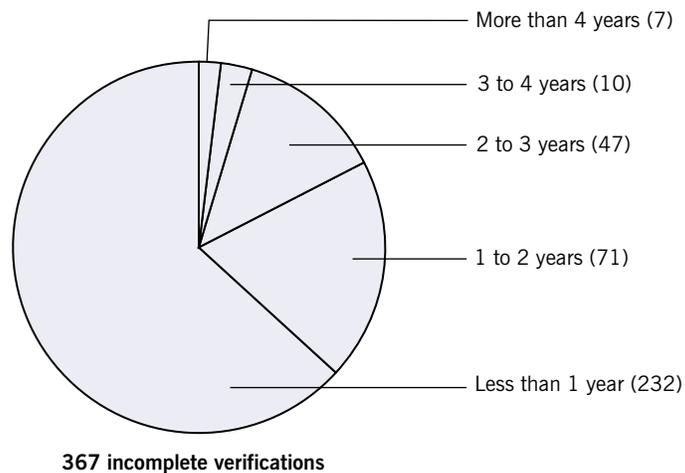


Source: Canada Customs and Revenue Agency

8.52 Completing each verification has taken much longer than Customs had anticipated. For many reasons, some of which are outlined in paragraph 8.54, 46 of the completed verifications took as long as three years. We calculated how long the Agency has been working on the periodic verifications it has not yet completed. We found that 135 have been going on for more than a year (Exhibit 8.8). These delays have caused difficulties and added costs for both the CCRA and the importers involved. The Agency is attempting to deal with some of these delays with a new verification approach, which is discussed in paragraph 8.59.

8.53 In our view, the concept of periodic verification is sound, but the CCRA has had great difficulty implementing it properly. After six years and a lot of effort, it has made little headway in assessing how well importers are following the rules. Furthermore, the initiative has left verification officers and some importers frustrated.

Exhibit 8.8 Delays in completing periodic verifications



Note: Number of incomplete verifications by August 2001 in parentheses.

Source: Canada Customs and Revenue Agency

Verification officers encountered many problems

8.54 To understand why it was taking so long to complete the periodic verifications, we interviewed headquarters officials, verification officers and their managers. As well, we reviewed internal audit reports and other documentation. We also surveyed a sample of verification officers across Canada. The survey results confirmed what we learned during our field visits. Verification officers told us they had several concerns:

- The methodology for periodic verifications was weak. The guidelines and manuals did not give verification officers enough guidance to help them do the work. The methodology became outdated and regions had to update it themselves, raising the concern that it was not being applied consistently.

- Headquarters did not provide timely guidance on how to apply the methodology or how to interpret policies. This increased the time that verification officers had to spend.
- It was difficult for verification officers to get guidance from their local managers on how to conduct the verifications, because managers changed positions frequently.
- Verification officers told us they did not get enough orientation and ongoing training to help them adapt to the new approach. The training they did get was often delayed.
- Verification officers have limited opportunities to share the knowledge and skills they learn on the job and better ways of doing the job. This is an important part of applying a new approach.
- Verification officers did not receive regular feedback and coaching from their managers to help them perform better.
- Importers did not always respond to requests for documentation in a timely manner.
- It was difficult for verification officers to get money for the travel the job entailed.

8.55 The training issue raised by the verification officers needs to be explained. Periodic verification requires that officers have a sound knowledge of auditing techniques, accounting practices, and trade regulations, so they can examine an importer's accounting systems properly and ensure that the importer has followed the rules. They also have to work as part of a team. For the most part, the officers who had been doing the transactional reviews needed extensive training in auditing techniques and accounting practices to make a successful transition to the new approach.

8.56 Headquarters and the regional offices gave the verification officers some training, including two accounting and auditing courses. But officers told us it was not enough to help them do the new job well. They also told us they did not find that the training provided by headquarters was effective. While the Agency tried to use its taxation auditors on the verification teams because they have the required accounting and auditing knowledge, these auditors were not always available when needed.

8.57 Problems with the national computer system. We also found that the national computer system for recording the results of verifications and other performance information does not meet the needs of compliance verification managers and officers. The system is outdated and not user-friendly. Officers are using various local systems that are not integrated. This means that verification officers in one region cannot look up information on similar cases in other regions to help them with their work. It also makes it difficult for the CCRA to get an accurate picture of current compliance levels, identify areas of highest risk, or determine where it should focus resources. In July 2001, headquarters prepared a business case for a national system to capture the results of all post-release verification activities.

8.58 Fallout on the work force. Verification officers we surveyed told us they had other frustrations that have affected their morale, in addition to their specific problems with the periodic verification approach:

- The CCRA has gone through several reorganizations and realignments since 1990. Verification officers said they have not received enough support to help them cope with the uncertainty that these reorganizations bring.
- Many regional managers have been in acting positions for some time, and officers told us this creates an atmosphere of instability. In the last five years, 156 people have filled the 71 manager positions in compliance verification units. And 115 of those people (74 percent) were acting in the position (Exhibit 8.9).

8.59 A revised approach is promising. The CCRA has had problems with its periodic verification approach for some time. In 2000, it piloted a new two-part approach for verifying importers' compliance, which includes compliance assessment reviews and a new verification process (Exhibit 8.10). Training in the new approach had been completed for two regions during our audit and is planned for the other four regions this fall. The pilots have been assessed and the results are encouraging. However, given the problems the Agency had with the periodic verification approach, we believe it will have to do much more this time if the new approach is to succeed.

Post-release verification plan needs improvement

8.60 In September 2000, the CCRA introduced the post-release verification plan for 2000–01, one of the three plans supporting the Compliance Improvement Plan. The purpose of the plan was to bring together all post-release verification requirements and establish national priorities. The Agency issued the post-release verification plan for 2001–02 in July 2001.

8.61 We are encouraged by the progress the Agency has made with these plans in the past year. However, further improvements are needed to set a firm direction for compliance verification. These include the following:

- The CCRA needs better information to determine what issues or trends it should emphasize and to identify the priority areas or sectors for

Exhibit 8.9 Turnover of regional management in compliance verification units over the last five years

	Pacific	Prairie	Southern Ontario	Northern Ontario	Quebec	Atlantic	Total
Number of manager positions	6	10	30	4	15	6	71
Number of people in those positions	18	43	52	11	23	9	156
Number of those people acting in the position	13	32	40	9	17	4	115
Percentage acting in the position	72%	74%	77%	82%	74%	44%	74%

Source: Canada Customs and Revenue Agency

verifications. The plans acknowledge that critical data are lacking and priorities are based mainly on anecdotal information and the intuition of trade experts. Better information would include the results of verifications, compliance trends and issues, industry sector compliance rates, revenue collected from compliance verifications, and links with border examinations.

- The Agency needs better information about an importer's compliance history. Currently, it decides what priority areas or sectors to focus on and then randomly selects the importers in those areas or sectors for verification. If it knew more about the importers, it could select those least likely to be complying with the laws.
- The plans do not provide for the overall coverage the CCRA wants and expects to give it sufficient assurance that importers are following the rules.
- The Agency bases the number of verifications it plans mainly on the number of officers available to do the work.
- The CCRA needs national standards sufficient to ensure that verifications of all importers are consistent, in both their quality and their coverage of the risks of non-compliance.

Exhibit 8.10 A new two-part approach replaces periodic verification

As part of the Compliance Improvement Plan, post-release verification is being changed to take a more risk-managed approach. Verification will focus on non-compliance. The new two-part approach will replace periodic verification and will include the following:

Compliance assessment review

- Relies on an understanding of the importer's business, accounting records, and types of import transactions. This is critical because it helps identify the relevant types of transactions to be considered in drawing an appropriate sample for review.
- Requires compliance verification officers to review a company's business systems and its importer processes and controls to identify strengths and weaknesses and determine the scope of the verification.
- Uses a much smaller sample size than periodic verification. Based on the results of a sample of companies in priority commodity sectors, determines any identifiable trends of non-compliance.

New verification process

- Designed to focus on specific risks identified in the compliance assessment review. It can be limited to one program or include several. It is a targeted verification process that will provide a streamlined and consistent national approach to verification.
- Selects an appropriate sample of transactions from the CCRA's or the importer's records; however, the sample size will vary from issue to issue. Requires compliance verification officers to select an appropriate sample, using guidelines developed to assist them.

Pilots for the compliance assessment review and the new verification process have been conducted successfully in various regions. The CCRA intends to roll out the two-part approach in the regions and develop performance measures and standards. Regional training was under way until the end of October 2001. By end of the year, the CCRA anticipates that the new two-part approach will be implemented in all regions.

Source: Canada Customs and Revenue Agency

8.62 We compared actual results achieved under the new approach for 2000–01 with planned results. By 31 March 2001, verification officers had completed only 53 percent of the planned verifications—covering 59 percent of the import value the Agency wanted to cover (Exhibit 8.11). Incomplete verifications have been carried over to 2001–02. The 2001–02 post-release verification plan is in some jeopardy because of the slippage. The Agency needs to better analyze why it is not meeting its targets and then develop a workable strategy and plan that will help it achieve appropriate coverage with its verifications.

Exhibit 8.11 Verifications planned and completed in priority sectors in 2000–01

	Verifications*	Import value (\$ millions)	Percentage of import value
Total import value	–	23,986	100
Verifications planned	152	3,141	13
Verifications completed	80	1,862	8
Percentage completed	53%	59%	–

*Verifications of importers selected from priority sectors, which include steel, textiles and apparel, footwear, and tariff rate quotas for milk proteins and chicken.

Source: Canada Customs and Revenue Agency

8.63 Recommendation. The Agency should do the following:

- collect the information needed to assess the effectiveness of all compliance verification activities and set goals for future activities that will provide assurance that importers are following the rules;
- analyze the results of completed periodic verifications and determine whether compliance has improved or deteriorated since 1998;
- analyze the results of completed single-program reviews to identify high-risk areas of non-compliance;
- ensure that the training provided to compliance verification officers, particularly in the areas of accounting and auditing, is appropriate, timely, and evaluated for its effectiveness;
- develop a national computer system to capture the results of all post-release verification activities; and
- develop an action plan to implement the new two-part approach to verifying importers' compliance, including methodology development, training, and ongoing officer support.

Agency's response. The Agency agrees with the recommendation. The implementation of the Compliance Improvement Plan in April 2000 provided for a comprehensive, integrated, risk-based approach to compliance for all Customs programs. As this process evolves, it will allow the Agency to ensure the effectiveness of all of its compliance verification activities and to set goals for future activities.

To aid in this process, the Agency will continue to capture and track the results of all post-release verification activities. The Agency will be monitoring and analyzing these data as we move through the Compliance Improvement Plan process to ensure that its efforts are effective in improving and sustaining compliance.

The Agency is currently developing both a short-term and a long-term system solution to allow us to capture and analyze the results of all post-release verification activities, including single-program reviews. The design and implementation of the new long-term system solution will be subject to the availability of systems and financial resources.

The Agency has established a national working group on training and learning, comprising regional and headquarters functional specialists to guide the future development of a national, core curriculum for compliance verification officers (CVOs) and client services officers (CSOs) for all trade and customs-related matters. As part of this work program:

- The Agency will finalize and distribute a new, generic, national, introductory course for CVOs, entitled Introduction to Trade Services, for use in the regions during 2001–02.
- The Agency is also currently evaluating a basic accounting self-study course and will adapt it to CVO needs as required. It will also explore a variety of other accounting and on-site verification/auditing courses to determine those best suited for CVOs.
- The Agency will elaborate a core curriculum and a long-term learning strategy for beginner, intermediate, and senior compliance verification officers during 2002–03 to ensure that the training provided to CVOs is appropriate, timely, and evaluated for its effectiveness.

The Agency will develop an action plan by the end of December 2001, to address the implementation of the new two-part approach to verifying importers' compliance. This action plan will be monitored to ensure the continued effectiveness of the verification processes.

Release of shipments

Shipments are now being released faster at the border

8.64 The 1990 Blueprint set out several ways that Customs hoped to streamline the processing of commercial goods:

- provide more service options to meet the individual needs of importers;
- increase the use of electronic data interchange (EDI) to exchange release and accounting information with its clients;
- have importers send information to Customs for review before a shipment arrives so it can process the shipment faster;
- register certain regular importers and pre-approve their imports of specific goods; and
- improve its enforcement capabilities so it can carry out inspections more efficiently.

8.65 The CCRA has successfully implemented these aspects of the Blueprint. Many commercial shipments now clear the border in less than five minutes under normal circumstances. In particular, importers who are

pre-approved and those who send the required information to the CCRA before the shipment arrives experience little delay of their shipments. Most delays at the border now occur because importers do not have their documentation ready when the shipment arrives or because traffic is congested.

8.66 In most cases, the problem of traffic congestion is beyond the Agency's control; it is caused by overcrowded roads, bridges, and airports. It is most acute in southern Ontario, where all highway crossings into Canada are by bridge or tunnel. These are the crossings with the most traffic. For example, about 2,000 trucks enter Canada every day across the Peace Bridge at Fort Erie, and they have to share the bridge with tourists and returning Canadians.

Significant accomplishments

8.67 The CCRA now meets the individual needs of importers better by providing several ways for them to have their goods released:

- full accounting and payment of all duties and taxes at the time of release;
- release with minimum documentation, followed up with a full accounting within five days of release;
- transmittal of information about the shipment before it arrives, followed up with a full accounting within five days of release; and
- pre-approval for certain importers to import specific goods at any time, followed up with a full accounting within five days of release.

8.68 About 65 percent of releases and 98 percent of accounting transactions are now processed through EDI. This is more efficient for the CCRA and improves its service to importers and brokers. For example, the CCRA's service standard for paper releases is two hours, but for EDI releases it is 45 minutes.

Machine release needs closer monitoring

8.69 One of the benefits of electronic transmission of information by importers is that the Agency can use its computers to analyze the information. This increases efficiency and frees up officers' time for other important activities. The CCRA uses its computers to recommend that goods be released for about 18 percent of all shipments. This is called machine release.

8.70 Importers send the required information to the CCRA electronically, including the tariff classification of the goods they are importing. The Agency's computers verify that the importer is eligible for machine release and that the goods can be imported into Canada. If the shipment has already arrived, the computer releases the goods. If it has not, the computer recommends that the goods be released and when the shipment arrives, an officer decides whether to release the goods immediately or examine them first.

8.71 The CCRA decides which importers are eligible for machine release based on their compliance records. We found that the procedures it follows to

make the decision are not as thorough as they should be. For example, it does not consider the results of an importer's compliance verifications, and yet these verifications are important to know how well the importer has followed the rules. Furthermore, the CCRA does not review its eligible importers regularly to ensure that they have kept their compliance records clean.

8.72 Recommendation. The Agency should systematically review the compliance records of importers that receive special release privileges, including machine release.

Agency's response. The Agency will continue to make efforts to ensure the systematic review of the compliance records of importers that receive special release privileges, including machine release.

An action plan to improve the authorization process and the monitoring of the machine release program and other special release privileges is currently being developed.

The Agency will continue to review the compliance records of CSA (Customs Self-Assessment) clients as part of the application and approval process. Once a client is approved for CSA, the Agency will systematically monitor compliance. A new client profile system is currently being developed to support this new monitoring function. The first release of this new system is planned for December 2001.

Measuring performance

New performance report provides more information

8.73 The overall objective of the Customs program is “to protect Canadian society and promote the competitiveness of Canada through the facilitation of international trade and tourism balanced with responsible border management.” We expected to find performance measures that would show how well the Agency meets this objective.

8.74 We found that the performance reports to date on the commercial aspects of the Customs program have been limited. The Agency has provided information on the volume of transactions processed and the total value of seizures, as well as updates on specific initiatives. There have been no performance measures to show how well it is protecting Canadian society or promoting Canada's competitiveness.

8.75 As part of the legislation that created the Agency, Parliament required it to report annually on how well it has achieved its objectives. At the time of our audit, the Agency was preparing its first performance report that will include information on the Customs program. The Agency's performance report will include our assessment of that information.

8.76 The Agency has developed five high-level performance measures for the Customs program and rated itself on meeting those measures. It has described how it arrived at the ratings and supported this with quantitative information where possible. The Agency acknowledges, however, that it is not collecting enough information to analyze in any systematic way whether it is achieving its objectives in the Customs program.

8.77 Measuring the compliance levels from beginning to end. Measuring the compliance levels overall and by industry sector would be important measures of how well the CCRA is doing its job in the Customs program. The CCRA already measures compliance levels at the border through its “stint” examinations. This information could be expanded to include compliance levels as measured by compliance verification activities. An integrated measure for both aspects of the Customs program would provide an overall compliance level, indicating how well importers followed the rules. It would also signal areas of non-compliance to help the CCRA focus its efforts better at the border and in compliance verification. Comparing compliance levels over a number of years would indicate whether the Agency’s activities to address identified areas of non-compliance had succeeded in improving compliance.

Setting expectations is part of the process

8.78 An important part of measuring performance is to set expectations and measure actual performance against them. Concrete expectations of performance indicate the desired direction and “how much” of the desired result is sought. Without this indication of “how much,” it is impossible to assess whether the accomplishments reported are adequate, show progress, or meet expectations fully.

8.79 The new Compliance Improvement Plan sets expectations for numbers of examinations, compliance verifications, and client service actions. It is important for the CCRA to report its actual results against these expectations and explain the differences, and it is starting to do this.

8.80 Exhibit 8.12 shows some of the measures that other customs services use to show how they are performing. These agencies also set performance expectations that use these measures, and they prepare an accountability report each year on whether they have met the expectations. When they have not, they explain why.

8.81 Recommendation. The Agency should develop the detailed performance measures needed to show that it is achieving its objectives in the Customs program. It should set expectations for each of the measures and collect appropriate information to evaluate actual performance against expectations.

Agency’s response. The Agency recognizes the importance of the generation and use of meaningful performance measures and this continues to be a priority for the Customs program.

Customs is participating in the Agency-wide implementation of the Balanced Scorecard methodology to improve performance management for our programs. Integral in this exercise is the validation of existing data sources, identification of data deficiencies, and identification of opportunities to improve the use and validity of data in order to evaluate performance achievements in relation to our performance expectations.

Exhibit 8.12 Some performance measures and targets used by other customs services

Performance measures	Targets
Australian Customs Service	
<ul style="list-style-type: none"> Percentage of electronically lodged import entries processed within 15 minutes 	97%
<ul style="list-style-type: none"> Percentage of manually lodged import entries where advice of ready to pay is given within 4 hours of receipt in Customs of a complete and accurate entry 	97%
<ul style="list-style-type: none"> Trend in the number and weight of drug seizures of illicit drugs 	Weight and number of seizures
<ul style="list-style-type: none"> Trend in number of detections and/or seizures of other prohibited imports 	Number of detections and/or seizures
<ul style="list-style-type: none"> Percentage availability of electronic systems to Customs clients 	99%
<ul style="list-style-type: none"> Percentage of total cargo entries subjected to revenue protection processes 	100%
<ul style="list-style-type: none"> Total revenue subjected to compliance audit activity as a percentage of total revenue responsibility 	15%
<ul style="list-style-type: none"> Amount of revenue adjustments as a result of compliance audit activity 	Recoveries: \$20 million Refunds: \$2 million
U.S. Customs Service	
<ul style="list-style-type: none"> Percentage of compliance for all trade transactions 	90%
<ul style="list-style-type: none"> Percentage of compliance for Primary Focus Industries transactions 	95%
<ul style="list-style-type: none"> Percentage of compliance for NAFTA transactions 	95%
<ul style="list-style-type: none"> Percentage of compliance rate for key statistics accuracy 	90%
<ul style="list-style-type: none"> Percentage of compliance rate for revenue collection 	99%
<ul style="list-style-type: none"> Increase number of nationally managed importer accounts 	800 by 2004–05
<ul style="list-style-type: none"> Increase number of reported lines in Automated Entry System (AES) 	16.6 million by 2003–04
<ul style="list-style-type: none"> Increase number and percentage of AES participants 	x number and x %
<ul style="list-style-type: none"> Increase number and quantity of narcotics seizures 	x number and x quantity

Source: Adapted from the 2000–2005 *Strategic Plan* of the U.S. Customs Service and the 1999–2000 *Annual Report* of the Australian Customs Service

The Action Plan looks to the future

8.82 *Investing in the Future: The Customs Action Plan 2000–2004* is the CCRA's plan to change the Customs program in the near future. The plan has two main features: risk-based processes for travellers and traders and a fair and effective sanctions regime. The goal of the risk-based processes is to make it easier for low-risk people and goods to cross the border and make it harder for higher-risk people and goods.

8.83 The Action Plan builds on many of the 1990 Blueprint concepts. For example, the Blueprint proposed a new penalty regime that would be fairer and quicker to apply. The Agency has designed an Administrative Monetary Penalty System as part of the Action Plan and has presented the necessary legislation for Parliament's approval.

Compliance verification is critical for Customs Self-Assessment

8.84 As part of the risk-based processes for traders, the CCRA is planning to implement Customs Self Assessment (CSA). CSA is a dramatic shift in the way the Agency does business at highway border crossings (Exhibit 8.13). Importers, carriers, and drivers will apply for CSA privileges and will be

Exhibit 8.13 The Agency's Customs Self-Assessment program

The Customs Self-Assessment (CSA) program allows approved importers to release and account for their commercial shipments more quickly. Some aspects of the initiative require changes to the *Customs Act*; these are currently contained in Bill S-23, which is before the House of Commons. The Agency is processing applications and expects to have CSA in place for highway shipments when the legislative changes are done.

Objective

- Provide simpler release procedures at the border for low-risk shipments.
- Eliminate the need to confirm shipments five days after release.
- Process a monthly declaration by the importer.
- Free up Agency resources to focus on more high-risk shipments.

Process

- When a CSA shipment crosses the border, the Agency records the importer, carrier, and driver. There is no need for the Agency to release the shipment.
- Importers will report all imports monthly and pay the duties and taxes owing.

Conditions

- Importers, carriers, and drivers must apply to the Agency to be CSA-approved.
- Importers must have a good compliance history and frequent low-risk shipments.
- Carriers and drivers must have a good compliance history.
- Importers and carriers must demonstrate they have adequate business systems to track and account for imported goods and shipments.
- Shipments do not require permits for other government entities.

Verification

- CSA shipments remain eligible for random inspection at the border.
- Compliance verification units in the regions will assess importers' accounting systems, books, and records to ensure compliance.

Source: Canada Customs and Revenue Agency

approved if they are considered a low risk. The approval process will give the Agency more information on who is crossing the border.

8.85 The CCRA will use a different process at the border for CSA-approved importers. The Customs officer will check that the importer, carrier, and driver are CSA-approved and will decide whether the shipment needs to be examined. The officer will record that the shipment has crossed the border, but will not release the goods; they will be considered released when the importer receives them. Approved importers will account once a month for all goods they have imported into Canada. The Agency has already tested many of the key features of the CSA initiative.

8.86 The compliance verification regime is critical in a CSA environment. While the Agency will continue to do random examinations at the border, it will do most of the verification work after the goods have entered Canada, based on the information provided by the importer. Earlier in this chapter we pointed out that the CCRA has ongoing problems with its compliance verification regime. The new two-part approach it is testing has not been proved or fully implemented (Exhibit 8.10). Therefore, we are concerned that the CCRA is going ahead with CSA before its compliance verification regime is solidly established.

Conclusion

8.87 The CCRA has faced a lot of changes in its Customs program over the past decade. The North American Free Trade Agreement has generated a big increase in the volume of commercial imports. The CCRA has not increased the resources used to deliver the Customs program; it has looked for ways to improve its efficiency while protecting Canadian society.

8.88 In our view, the 1990 Blueprint and the 2000 Customs Action Plan included many good ideas to help the CCRA achieve its objectives. We found that the Agency has done well with its Blueprint initiatives for speeding up the release of shipments at the border. We also found that it has worked hard to improve its enforcement regime, but important challenges remain. In particular, the CCRA needs to further improve its targeting of high-risk shipments and show that its risk management approach is working. Finally, we found that the Agency has had great difficulty implementing its approach to verifying importers' compliance; it needs to focus more closely on its newest approach.

8.89 The CCRA is not yet providing Parliament and Canadians with enough information on the performance of the Customs program. The Agency's new performance report is promising. But it needs to collect and analyze much more concrete information if it is to demonstrate that it is achieving its objectives in the Customs program.

About the Audit

Objectives

The objectives of our audit were the following:

- to assess whether the CCRA's risk management strategy for identifying and targeting high-risk shipments and its inspection regime have been satisfactorily designed, implemented, and monitored to achieve its objective of protecting Canadian society and industry;
- to assess whether the CCRA's post-release verification regime has been satisfactorily designed, implemented, and monitored to achieve its objective of ensuring compliance; and
- to determine whether the CCRA has measured and reported the results of its inspections and post-release verifications.

Scope and approach

The audit focussed on the CCRA's inspection of shipments identified at random or targeted under its risk management strategy and on subsequent post-release verifications of commercial shipments entering Canada.

Our examination included a review of the CCRA's risk management strategy and targeting techniques, border inspections, and post-release verification processes. We conducted our work in Customs' headquarters in Ottawa and at various regional offices and selected ports of entry. Our work included interviewing Customs management and staff, stakeholders, and other government department officials and union officials as appropriate. We surveyed a selected sample of compliance verification officers for their opinions. We reviewed and analyzed relevant processes and documents.

Criteria

Our audit was based on the following criteria:

- The CCRA's risk management strategy should be clearly stated. Appropriate criteria should be established to assess the risks associated with the movement of goods across the border.
- The CCRA's inspection regime should be satisfactorily designed, implemented, and monitored to prevent the movement of contraband and hazardous goods across the border.
- The CCRA's post-release verification regime should be satisfactorily designed, implemented, and monitored to ensure compliance.
- Headquarters should provide functional guidance and assist the regions in implementing the inspection and post-release processes.
- Customs should have the capacity in place to satisfactorily conduct inspections and post-release verifications.
- Customs should measure and report on the results of the inspection and post-release verification regimes for purposes of accountability and continuous improvement.
- Customs should have effective working relationships with other government departments to manage the risk of non-compliance.

Audit team

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Appendix The Agency administers parts of other legislation for other government entities

Legislation	Customs work at the border
Canadian Food Inspection Agency	
<i>Health of Animals Act</i> and Regulations <i>Food and Drugs Act</i> <i>Meat Inspection Act</i> and Regulations (includes poultry) <i>Feeds Act</i> and Regulations <i>Fertilizers Act</i> and Regulations <i>Plant Protection Act</i> and Regulations <i>Seeds Act</i> and Regulations <i>Canada Agricultural Products Act</i> and Regulations	Collect and review documents. Hold goods and refer to the Agency for release or examination decision. Collect Agency inspection fees (and monetary penalties).
Canadian Nuclear Safety Commission	
<i>Nuclear Safety and Control Act</i> <ul style="list-style-type: none"> General Nuclear Safety and Control Regulations 	Collect and inspect import licenses on the transshipment and in-transit movement of prescribed substances through Canada, that is, plutonium and deuterium.
Department of Canadian Heritage	
<i>Cultural Property Export and Import Act</i>	Issue export permits. Inspect and, where applicable, detain and refer goods to the Department of Canadian Heritage.
Department of Finance Canada	
<i>Customs Tariff</i> <ul style="list-style-type: none"> Marking of Imported Goods Regulations 	Certain goods imported into Canada are required to be marked with their country of origin. Customs examines these goods to ensure they are properly marked and detains those that are not.
Department of Foreign Affairs and International Trade	
<i>Export and Import Permits Act</i> <i>United Nations Act</i> World Trade Organization Agreement North American Free Trade Agreement	Verify and validate permits. Hold, inspect, and seize goods as required. Monitor goods controlled under tariff rate quotas to ensure proper classification as per the <i>Customs Tariff</i> and collect applicable duties. Detain shipments from countries with imposed trade sanctions. Administer trade legislation.
Department of Foreign Affairs and International Trade, Solicitor General Canada, and Royal Canadian Mounted Police	
<i>Criminal Code</i> <i>Export and Import Permits Act</i>	Validate permits, licenses, and customs documentation pertaining to the importation of these goods.
Department of Justice Canada	
<i>Firearms Act</i>	Determine admissibility of firearms, weapons, and devices.

Legislation	Customs work at the border
Environment Canada	
<p><i>Wild Animal and Plant Protection and Regulation of International and Interprovincial Trade Act</i></p> <p><i>Canadian Environmental Protection Act</i></p> <ul style="list-style-type: none"> • Export and Import of Hazardous Wastes Regulations • Ozone-depleting Substances Regulations • Ozone-depleting Substances Products Regulations 	<p>Validate certificates in respect of the Convention on International Trade in Endangered Species of Wild Fauna.</p> <p>Detain and refer goods to Environment Canada, as necessary.</p> <p>Collect and verify documentation. When non-compliant, detain and refer shipment to Environment Canada.</p>
Health Canada	
<p><i>Controlled Drugs and Substances Act</i></p> <ul style="list-style-type: none"> • Narcotic Control Regulations • Industrial Hemp Regulations <p><i>Food and Drugs Act</i></p> <ul style="list-style-type: none"> • Food and Drug Regulations • Medical Devices Regulations • Veterinary Drugs • Processing and Distribution of Semen for Assisted Conception Regulations <p><i>Pest Control Products Act</i></p> <ul style="list-style-type: none"> • Pest Control Products Regulations <p><i>Hazardous Products Act</i></p> <ul style="list-style-type: none"> • Hazardous Products Regulations <p><i>Radiation Emitting Devices Act</i></p> <ul style="list-style-type: none"> • Cosmetics Regulations <p><i>Quarantine Act</i></p> <ul style="list-style-type: none"> • Quarantine Regulations <p><i>Department of Health Act</i></p> <ul style="list-style-type: none"> • Human Pathogens Importation Regulations 	<p>Collect and review import permits and return validated permits to Health Canada.</p> <p>Inspect goods, seize, or detain, and refer to Health Canada, when appropriate.</p> <p>Inspect, detain, and refer goods to Health Canada, when necessary.</p> <p>Ensure that required Health Canada information is shown on shipping containers of human semen.</p> <p>Collect, review, and send validated import permits to Health Canada.</p> <p>Detain and refer suspect goods to Health Canada, when necessary.</p> <p>Inspect goods.</p> <p>Detain and refer suspect shipments to Health Canada, when necessary.</p> <p>Insure the presence of a medical or death certificate.</p> <p>Contact Health Canada, when necessary.</p> <p>Verify that the import permit attached to the shipment matches the permit presented for release.</p> <p>Collect and return the validated permit to Health Canada.</p>
Industry Canada	
<p><i>Consumer Packaging and Labelling Act</i></p> <p><i>Textile Labelling Act</i></p> <p><i>Precious Metals Marking Act</i></p>	<p>Advise Industry Canada when imported goods are suspected of violating one of the Acts.</p>

Legislation	Customs work at the border
Industry Canada and Royal Canadian Mounted Police	
<p><i>Copyright Act</i></p> <p><i>Trade-marks Act</i></p>	<p>As directed by the courts, take all reasonable measures to detect and detain alleged infringing goods.</p> <p>At the request of the Royal Canadian Mounted Police, detain those goods (subsection 489(2) of the <i>Criminal Code</i>).</p>
Natural Resources Canada	
<p><i>Energy Efficiency Act</i> and Regulations</p> <p><i>Explosives Act</i></p> <ul style="list-style-type: none"> • Explosives Regulations 	<p>Review, collect and forward import information to Natural Resources Canada.</p> <p>Detain goods with deficient import information.</p> <p>Control and prohibit importation and exportation of explosives.</p> <p>Detain goods, where appropriate.</p>
Statistics Canada	
<i>Statistics Act</i>	Provide Statistics Canada with import and export information.
Transport Canada	
<p><i>Motor Vehicle Safety Act</i></p> <ul style="list-style-type: none"> • Motor Vehicle Safety Regulations • Motor Vehicle Tire Safety Regulations <p><i>Transportation of Dangerous Goods Act</i></p> <ul style="list-style-type: none"> • Transportation of Dangerous Goods Regulations 	<p>Ensure compliance with Canadian safety standards for all types of vehicles and tires entering Canada.</p> <p>Register United States qualifying vehicles for the Registrar of Imported Motor Vehicles.</p> <p>Verify information on shipping documents and safety marks on containers and transport units.</p> <p>Forward information on suspected non-compliant shipments to Transport Canada.</p>